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**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION**

IN RE: APPLE, INC. PSLRA BACKDATING
LITIGATION

Case No.: C-06-05208-JF

**FIRST AMENDED
CONSOLIDATED CLASS
ACTION COMPLAINT**

DEMAND FOR JURY TRIAL

Honorable Jeremy Fogel

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Lead plaintiff The New York City Employees' Retirement System ("Lead Plaintiff" or "NYCERS") makes the following allegations upon information and belief, except the allegations relating to Lead Plaintiff, which Lead Plaintiff makes upon personal knowledge, against Apple Inc. ("Apple" or the "Company")¹ and certain of its current and former directors and officers. Lead Plaintiff brings this securities fraud class action under Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and SEC Rule 10b-5 promulgated thereunder ("Section 10(b)"), and Section 20(a) of the Exchange Act on behalf of itself and all other persons or entities who acquired securities issued by Apple, between and including August 24, 2001 and June 29, 2006 (the "Class Period"). As a result of the wrongdoing alleged herein, the members of the Class (as defined below) collectively lost hundreds of millions of dollars.

Plaintiffs' information and belief is based on their investigation (made by and through their attorneys), which investigation included, among other things, a review and analysis of: (1) public documents relating to the defendants; (2) Apple's filings with the SEC; (3) press releases published by Apple; (4) analyst reports concerning the Company; and (5) newspaper and magazine articles (and other media coverage) regarding Apple and its business. Many of the facts supporting the allegations contained herein are known only to the defendants or are exclusively within their possession, custody and/or control. Plaintiffs believe that further substantial evidentiary support will exist for the allegations in this First Amended Consolidated Class Action Complaint (the "FAC") after a reasonable opportunity for discovery.

I. OVERVIEW OF CLAIMS

1. This case involves the fraud of Apple executives and directors in backdating grants of stock options to themselves and Apple employees in order to reap instant rewards, while concealing from Apple's investors and shareholders the costs associated with their additional compensation. In connection with its backdating scheme, Apple and Defendants Fred D. Anderson ("Anderson"), Apple's former Chief Financial Officer, Nancy R. Heinen

¹ As reflected in a Form 8-K filed with the U.S. Securities and Exchange Commission ("SEC") on January 10, 2007, on January 9, 2007, Apple changed its name from "Apple Computer, Inc." to "Apple Inc."

1 (“Heinen”), Apple’s former General Counsel, and Steven Jobs (“Jobs”), Apple’s Chief
2 Executive Officer (collectively, the “Individual Defendants”), and several members of Apple’s
3 Board of Directors (the “20(a) Defendants”), caused Apple to file false financial statements that
4 concealed millions of dollars in executive compensation. The Individual Defendants personally
5 profited from Apple’s backdating of stock options, receiving millions of dollars in unreported
6 compensation. The 20(a) Defendants knowingly facilitated and participated in the Individual
7 Defendants’ fraudulent scheme, and were directly involved in and responsible for the decisions
8 that ultimately caused Apple to conceal millions of dollars in executive compensation and to
9 file false financial statements.

10 2. Under well-accepted accounting rules in effect throughout the relevant period,
11 Apple was required to expense any stock option that was issued to its employees “in the
12 money” *i.e.* when the exercise price of the option was lower than the market price of the stock
13 on the date of the issuance. Where the stock option was issued at its fair market value on the
14 date of the grant, the Company did not incur an expense in connection with the grant.

15 3. In order to provide themselves with additional compensation without disclosing
16 this compensation to investors, the Individual Defendants engaged in a conspiracy pursuant to
17 which they granted themselves in-the-money options while falsifying company records and
18 publicly filed documents to create the appearance that the options had been granted at the
19 market price on an earlier date. The Individual Defendants’ fraudulent conduct included
20 creating minutes for a non-existent Board of Directors meeting to create a false paper trail to
21 evidence when the grants were supposedly authorized. As a consequence of this illegal
22 scheme, the Individual Defendants caused Apple to file financial statements throughout the
23 Class Period that failed to account for this undisclosed compensation.

24 4. An article published by the *Wall Street Journal* on March 18, 2006 first brought
25 backdating to the attention of the investing public by highlighting apparent backdating at
26 various corporations. Apple, however, escaped the scrutiny of the *Wall Street Journal*’s
27 reporters and continued to conceal its fraudulent conduct. Although the defendants in this case
28 knew that they too had engaged in this illicit practice for almost a decade, they remained silent.

1 The defendants even caused Apple to hold its annual meeting in April 2006, at which directors
2 who had substantial involvement with backdating stood for reelection, without telling investors
3 a single thing about how backdating practices were lining the pockets of Apple's executives at
4 the expense of its public shareholders.

5 5. Then, on June 29, 2006, Apple stunned the market by announcing that there
6 were "irregularities" in its stock option practices. In other words, Apple engaged in
7 backdating, just like the companies that had earlier been described in the March 18, 2006 *Wall*
8 *Street Journal* article more than three months earlier. On the news, Apple's share price fell
9 precipitously, declining over 14% over the next two weeks and erasing more than \$7 billion in
10 market capitalization – causing substantial losses for Lead Plaintiff and other members of the
11 Class for which Lead Plaintiff seeks recovery. The precipitous decline in Apple's stock was, in
12 large part, the result of investors recognizing that Apple's most senior managers lack integrity
13 and simply could not be trusted in that they were willing to falsify company records to enhance
14 their own compensation. In addition, the share price also was negatively impacted because the
15 shareholders learned that Apple's compensation expenses were materially understated,
16 resulting in a material overstatement of net income.

17 6. Ultimately, on December 29, 2006, Apple admitted that between 1997 and 2002,
18 Apple made 6,428 option grants to its employees, including the defendants named herein, that
19 were improperly dated. As a result of Apple has admitted that it and its most senior executives
20 had been lying to shareholders and the public generally regarding the intent and effect of the
21 Company's compensation practices – demonstrating that Apple's management simply could
22 not be trusted. In addition, Apple admitted that the effect of these misdated option grants was
23 to understate its expenses, and thus overstate net income, over this period by \$105 million.

24 7. By Apple's own admission, the bulk of the restated expenses are the result of
25 backdated options awarded to Apple's executives and its CEO stemming from *intentional*
26 *misconduct*. Jobs himself was the primary beneficiary of this scheme.

27 8. Neither Jobs, nor the other Individual Defendants, nor the 20(a) Defendants can
28 be heard to claim ignorance here, nor can they be heard to claim they failed to appreciate the

1 accounting implications of their decisions. The defendants knew that options were not granted
2 on the dates that were disclosed to shareholders and falsified the company's records to create
3 the appearance of legality, and thus bear direct responsibility for their actions. Here, Jobs and
4 the Individual Defendants clearly appreciated the fraudulent nature of their conduct. Anderson,
5 Apple's former CFO, clearly appreciated the accounting implications of the backdating scheme
6 and, in fact, was a glad-handed recipient of backdated options. Heinen actually falsified
7 corporate records in order to conceal the backdating scheme. And Jobs, aside from being the
8 single largest beneficiary of the backdating scheme, repeatedly signed off on statements
9 certifying that option grants were made on certain days when, as he knew and Apple now
10 admits, they were not.

11 9. Indeed, on April 24, 2007, the U.S. Securities and Exchange Commission
12 ("SEC") charged both Anderson and Heinen with fraud relating to stock options backdating at
13 Apple. According to SEC Litigation Release No. 20086 dated April 24, 2007: (a) "[b]oth
14 Heinen and Anderson personally received millions of dollars in unreported compensation as a
15 result of the backdating"; and (b) the SEC's complaint (i) allege[d] that Heinen ... caused
16 Apple to backdate to large option grants to senior executives of Apple – a February 2001 grant
17 of 4.8 million options to Apple's Executive Team and a December 2001 grant of 7.5 million
18 options to Apple Chief Executive Officer Steve Jobs – and altered company records to conceal
19 the fraud" and (ii) charged that Anderson "failed to disclose key information [about
20 backdating] to Apple's auditors and neglected to ensure that the company's financial statements
21 were accurate."

22 10. To avoid the fraud charges, both Anderson and Heinen settled with the SEC.
23 Anderson was permanently enjoined from committing further fraud in violation of the federal
24 securities laws and was required to disgorge almost \$3 million in ill-gotten gains from illicit
25 backdating and paid a \$150,000 penalty. Heinen was permanently enjoined from committing
26 further fraud in violation of the federal securities laws and was required to disgorge more than
27 \$1.5 million in ill-gotten gains from illicit backdating, paid a \$200,000 penalty, was barred
28

1 from serving as an officer or director of a public company for five years and was suspended
2 from appearing or practicing as an attorney before the SEC for three years.

3 11. For their part, the 20(a) Defendants *specifically knew* of the backdating of stock
4 options, *specifically approved* of the practice, and took absolutely no action to prevent the
5 Company from publishing false statements that concealed the backdating.

6 **II. PARTIES**

7 **A. PLAINTIFFS**

8 12. NYCERS is a pension fund within the actuarial pension systems of New York
9 City, which includes other funds such as the Police Pension Fund, the Fire Department Pension
10 Fund, the Teachers' Retirement System, the Board of Education Retirement System, and six
11 variable supplements funds (collectively, the "Funds"). As of June 30, 2004, the Funds had
12 258,609 retired members and 347,575 active members. NYCERS has over 200,000 active
13 members, and approximately 120,000 retirees and beneficiaries. NYCERS, established under
14 Section 120102 of the Administrative Code of the City of New York, provides pension benefits
15 to all New York City employees who are not eligible to participate in other New York City
16 pension funds.

17 13. NYCERS made purchases of Apple stock at artificially inflated prices during the
18 Class Period.

19 **B. CORPORATE DEFENDANT**

20 14. Defendant Apple is a California corporation with its principal executive offices
21 located at 1 Infinite Loop, Building 4, Cupertino, California. According to its filings with the
22 SEC, the Company is a leading worldwide manufacturer of personal computers, computer
23 software and portable digital music players. Its common stock trades on the Nasdaq National
24 Market under the ticker symbol AAPL. As of February 26, 2006, there were 851,679,185
25 shares outstanding of Apple's common stock.

26 **C. THE 10(b) DEFENDANTS**

27 15. Defendant Steven P. Jobs is the Company's Chief Executive Officer and has
28 acted in that capacity since January 2000. Jobs was previously Interim Chief Executive Officer

1 from September 10, 1997 to January 2000. Jobs co-founded the Company beginning in 1976
2 and has been a member of the Company's board of directors since 1997. According to the
3 Company's proxy statements, although defendant Jobs was a member of the Company's board
4 of directors, he did not participate in board deliberations concerning executive compensation
5 matters.

6 16. Defendant Fred D. Anderson was the Company's Chief Financial Officer from
7 April 1996 to June 2004 and was a member of the Company's board of directors from 2004
8 until September 30, 2006 when he was forced to resign due to his involvement with backdating
9 as alleged more fully below. As discussed above and further below, on April 24, 2007, the
10 SEC charged Anderson with various counts of fraud under the federal securities laws for his
11 role in backdating options at Apple and misrepresenting these activities in the Company's
12 public filings, and Anderson paid substantial monetary penalties to avoid the SEC's fraud
13 charges.

14 17. Defendant Nancy R. Heinen, during the Class Period until May 2006, was the
15 Senior Vice President, General Counsel, and Corporate Secretary at Apple. In that position,
16 among other things, Heinen had responsibility for overseeing Apple's legal group and
17 preparing and certifying the minutes of Apple's Board of Directors and its committees. Heinen
18 left Apple in May 2006. As discussed above and further below, on April 24, 2007, the SEC
19 charged Heinen with various counts of fraud under the federal securities laws for her role in
20 backdating options at Apple and misrepresenting these activities in the Company's public
21 filings, and Heinen paid substantial monetary penalties to avoid the SEC's fraud charges.

22 **D. THE 20(a) DEFENDANTS**

23 18. The Company's board of directors maintained certain committees relevant to the
24 allegations herein as follows. The Compensation Committee of the board of directors (the
25 "Compensation Committee") administered the Company's executive compensation programs,
26 including its stock option plans, at all times relevant to the allegations herein except that: (a)
27 during the period of time from April 2000 to August 2001, the Company's full board of
28 directors administered such programs; and (b) the Company's full board of directors was

1 responsible for the approval of executive compensation matters concerning the Company's
2 CEO.

3 19. The board of directors also maintained an Audit and Finance Committee (the
4 "Audit Committee") during the relevant time. The Audit Committee was generally responsible
5 for, among other things, assisting the full Apple board in fulfilling its oversight responsibility
6 by reviewing the financial information provided to shareholders and others and evaluating the
7 Company's accounting policies and system of internal controls, including internal controls
8 respecting stock options and the proper accounting treatment thereof.

9 20. Defendant William V. Campbell has been a member of the Company's board of
10 directors since 1997. Campbell has also been a member of the Audit Committee since at least
11 December 1997 and a member of the Compensation Committee since August 2001.

12 21. Defendant Millard S. Drexler has been a member of the Company's board of
13 directors since 1999. Drexler has also been a member of the Compensation Committee since at
14 least March 24, 2003.

15 22. Defendant Arthur D. Levinson has been a member of the Company's board of
16 directors since 2000. Levinson has also been a member of the Audit Committee since fiscal
17 2000 and was a member of the Compensation Committee from August 2001 to at least March
18 24, 2003.

19 23. Defendant Jerome B. York has been a member of the Company's board of
20 directors since August 1997. York has also been a member of the Audit Committee since

21 24. August 1997 and was a member of the Compensation Committee from August
22 2001 to at least March 21, 2002.

23 25. Defendants Jobs, Anderson and Heinen, as control persons of the Company, are
24 also liable under Section 20(a) in the alternative to their liability under Section 10(b) and are,
25 thus, also 20(a) Defendants.

26 26. As officers and/or directors who were controlling persons of a publicly-held
27 company whose common stock was, and is, registered with the SEC pursuant to the Exchange
28 Act, traded on the NYSE, and governed by the provisions of the federal securities laws, the

1 Individual Defendants each had a duty to disseminate prompt, accurate and truthful information
2 with respect to Apple's financial condition and performance, operations, financial statements,
3 management, and earnings and to correct any previously-issued statements that had become
4 materially misleading or untrue, so that the market price of Apple's publicly-traded securities
5 would be based upon truthful and accurate information. The Individual Defendants'
6 misrepresentations and omissions during the Class Period violated these specific requirements
7 and obligations.

8 27. The Individual Defendants participated in the drafting, preparation, and/or
9 approval of the various public and shareholder and investor reports and other communications
10 complained of herein and were aware of, or recklessly disregarded, the misstatements contained
11 therein and omissions therefrom, and were aware of their materially false and misleading
12 nature. Because of their Board membership and/or executive and managerial positions with
13 Apple, each of the Individual Defendants had access to the undisclosed information concerning
14 Apple's backdating practices, and knew or recklessly disregarded the magnitude of the effect of
15 such practices during the Class Period on Apple's financial performance.

16 28. The Individual Defendants and the 20(a) Defendants, because of their positions
17 of control and authority as officers and/or directors of Apple, were able to and did control the
18 content of the various SEC filings, press releases and other public statements pertaining to
19 Apple during the Class Period. Each Individual Defendant and 20(a) Defendant was provided
20 with copies of the documents alleged herein to be misleading prior to or shortly after their
21 issuance and/or had the ability and/or opportunity to prevent their issuance or cause them to be
22 corrected. Accordingly, each of the Individual Defendants and 20(a) Defendants is responsible
23 for the accuracy of the public reports and releases detailed herein and is, therefore, primarily
24 liable for the representations contained therein.

25 29. During the Class Period, the Individual Defendants and the 20(a) Defendants, as
26 Apple's officers and/or directors, were privy to confidential and proprietary information
27 concerning Apple, their operations and business prospects and were responsible for the
28 truthfulness and accuracy of Apple's public statements described herein. By reason of their

positions with Apple, these defendants had access to internal Apple documents, reports, and other information, including, among other things, documentation concerning Apple's options grants. These defendants were also responsible for setting and establishing Apple's policies and procedures concerning the grants of options.

III. JURISDICTION AND VENUE

30. Jurisdiction is based on § 27 of the Exchange Act, 15 U.S.C. § 78aa, and 28 U.S.C. § 1331, as this case arises from defendants' violations of Sections 10(b) and 20(a) of the Exchange Act and the rules promulgated thereunder by the SEC.

31. Venue is proper in this District pursuant to Section 27 of the Exchange Act, 15 U.S.C. § 78aa, and 28 U.S.C. § 1391(b) as a substantial part of the events or omissions giving rise to Plaintiffs' claims occurred in this District. Many of the acts and transactions forming the basis for the claims in this action, including the preparation and dissemination of materially false and misleading information, and the failure to disclose material information, occurred in substantial part in this District.

32. The claims asserted herein are not the product of any collusive conduct designed to confer jurisdiction on this Court which it otherwise would not have.

IV. INTRADISTRICT ASSIGNMENT

33. As substantial part of the events or omissions which give rise to Plaintiffs' claims occurred within Santa Clara County, where defendant Apple is located. Therefore, this action is properly assigned to the Court's San Jose Division in accordance with Civil L.R. 3-2(c) and (d).

V. FACTUAL BACKGROUND

A. OVERVIEW OF STOCK OPTION BACKDATING

34. During the late 1990s and early 2000s, Apple like many other technology companies, made liberal use of employee stock options as a form of compensation to recruit, retain, and provide incentives to its key employees.

35. Companies award stock options to give employees the right to purchase shares of the company's stock. The employees do so by paying the company a set price in exchange

1 for the shares. The price is referred to as the “exercise price” and is typically fixed at the
2 company’s closing stock market price on the same date the option was granted. This is referred
3 to as granting options “at the money.”

4 36. An “at the money” option is not immediately valuable to the executive. This is
5 because, at the time the option is first awarded, the amount the executive must pay to acquire
6 the shares (*i.e.*, the exercise price) and the stock market trading price at which he could sell
7 them are the same. There is, therefore, no gain to be had by exercising the option because the
8 executive would merely break even. Granting the option “at the money,” by design, gives the
9 executive extra incentive to work toward increasing the company’s stock market price above
10 the fixed exercise price so the option has value.

11 37. Over time, when the company’s stock market price rises above the fixed
12 exercise price, the option becomes valuable; it is then referred to as being “in the money.”
13 After a fixed period of time has elapsed since the option was first granted (referred to as the
14 “vesting period”), the executive can pay the exercise price, acquire the shares, sell them in the
15 marketplace for an amount greater than the exercise price he paid and thereby realize a profit.
16 In other words, the executive can “buy low and sell high” just like a shareholder hopes to do.
17 When options are awarded “at the money,” the corporate executives’ interests are more closely
18 aligned with shareholder interests than would be the case if the executive was simply paid in
19 cash. Many companies, including Apple, emphasized this alignment of interests in proxy
20 statements seeking to convince shareholders that approving lucrative stock option incentives
21 for executives is a good idea.

22 38. A March 18, 2006 *Wall Street Journal* (the “*Journal*”) article first disclosed the
23 existence of options backdating by certain companies. The *Journal* explained that instead of
24 setting the exercise price on the date the option was first granted (*i.e.*, so it was “at the
25 money”), some companies waited until later. They looked back at a chart of the company’s
26 historical stock market closing prices, picked a day when the company’s stock price had
27 dropped to a low or near-low point and pretended that the options had been awarded on that
28 date. Thus, the exercise price assigned to the option was *lower* than the company’s trading

1 price on the real date the option was awarded. This “backdating” would give the executive an
2 instant paper profit (*i.e.*, put the option “in the money” from the outset).

3 39. The companies did not tell shareholders the truth about how the exercise price
4 was selected. Instead, the same companies that had solicited proxies to sell shareholders on the
5 idea that executive and shareholder interests were closely aligned lied about the selection
6 process. They told shareholders that the option was granted “at the money” or, more precisely,
7 that the option’s exercise price was not less than the company’s stock market closing price on
8 the date the option was granted. This was not true. The exercise prices were in fact *less* than
9 (and in many cases a lot less than) the companies’ closing stock market prices on the dates the
10 options were truly granted. Contrary to the companies’ representations, therefore, the
11 executive did not need to work to increase the company’s stock price above the exercise price;
12 through backdating, it was already there. And the companies failed to disclose to shareholders
13 that when the option is ultimately exercised, the executive pays the company less than he or she
14 would have if the options had been priced properly under the terms of the applicable stock
15 option plan.

16 40. In addition to demonstrating a lack of integrity on the part of management and
17 disguising the true compensation they are receiving, the price at which stock options are
18 granted also has a material impact on the company’s financial statements and, therefore, its
19 stock valuation in the marketplace. Specifically, prior to January 1, 2006, corporations were
20 not required to recognize any compensation expense relating to stock option grants *unless* the
21 exercise price of the options was below the publicly traded price of the company’s stock on the
22 date of the grant. On the other hand, if the corporation granted options that carried an exercise
23 price below the publicly traded stock price, the company was required to recognize and
24 disclose the “in the money” portion of the option grant (*i.e.*, the difference between the exercise
25 price and the publicly traded price, times the number of shares underlying the options) as
26 compensation expense paid to the grant recipients.

27 41. More specifically, for financial statements prior to January 1, 2006, under APB
28 No. 25, “Accounting for Stock Issued to Employees” (“APB No. 25”), a provision of Generally

1 Accepted Accounting Principles (“GAAP”), if the market price of the company’s stock on the
2 date of grant was higher than the exercise price of the options (*i.e.*, the option was granted “in
3 the money” instead of “at the money”), companies are required to recognize the difference as
4 an expense. Failure to recognize such expense means that the operating and net income figures
5 the company reports to shareholders are falsely inflated.

6 42. In addition, backdating can cause negative tax consequences. Section 162(m) of
7 the Internal Revenue Code, 26 U.S.C. § 162(m) (“Section 162(m)”), generally disallows a
8 public company’s tax deduction for compensation to executive officers in excess of \$1 million
9 in any tax year. Compensation that qualifies as “performance-based compensation” is excluded
10 from the \$1 million deductibility cap and, therefore, remains fully deductible by the company
11 that pays it. To qualify as “performance based” within the meaning of Section 162(m), options
12 must be granted with an exercise price of not less than 100% of the fair market value of the
13 common stock on the date of the grant. Failure to issue stock options “at the money,”
14 therefore, can cause a company to lose the tax deduction that would otherwise be available
15 under Section 162(m).

16 43. By backdating stock options – and thus concealing the “in the money” nature of
17 the grant – corporations, including Apple, misled the public as to the nature of their
18 compensation practices and the integrity of their management in that they failed to account for
19 the additional compensation being paid to corporate directors, executives and employees who
20 received these grants, thus rendering their public statements materially misleading.
21 Specifically, corporations, such as Apple, that engaged in the nefarious practice of options
22 backdating, *inter alia*, (a) understated their disclosed compensation expense in the period when
23 the options were granted, (b) overstated the company’s net income for the fiscal year when the
24 options were granted, and (c) overstated the company’s retained earnings for every accounting
25 period that followed an illegally backdated option grant. As a result of the above, the stock
26 prices of such companies (including Apple) were artificially inflated.

27 44. While the *Journal* article identified numerous technology companies that
28 appeared to engage in the practice of backdating, Apple was not one of them. But, the *Journal*

1 article triggered a widespread investigation by the Department of Justice, SEC and Internal
 2 Revenue Service that focused on more than 140 companies that reportedly engaged in the
 3 backdating of options. Apple and/or its former employees were the subject of one such
 4 investigation, and Apple has admitted that it engaged in a widespread practice of improperly
 5 backdating stock options, and Anderson and Heinen have, among other things, been barred by
 6 the SEC from further fraud in violation of the federal securities laws.

7 **B. THE RAMPANT BACKDATING OF STOCK OPTIONS AT APPLE EXTENDS BACK**
 8 **TO AT LEAST 1993**

9 45. Despite the March 18, 2006 *Journal* article and knowledge of its long history of
 10 backdating, Apple initially remained silent. In fact, just five days prior to the revelations in the
 11 March 18 *Journal* article, Apple had distributed (on March 13, 2006) its 2006 proxy statement
 12 seeking reelection of six directors who now have been identified as being involved in the
 13 Company's backdating practices. Forty-five days later, Apple held its annual meeting,
 14 knowing that shareholders would cast ballots for directors ignorant of their involvement with
 15 backdating. Rather than come clean, Apple never said a word.

16 46. It is now clear that Apple had engaged in the systematic backdating of stock
 17 options since at least 1993. From 1993 through 2001, as reported in the Company's proxy
 18 filings, the Company made options grants to at least the following executives: (1) defendant
 19 Jobs; (2) defendant Anderson; (3) James J. Buckley, a holder of various Apple offices from
 20 January 1986 to May 1996 and President of Apple USA from January 1994 to May 1996; (4)
 21 Robert Calderoni, a Senior Vice President of Finance from June 1996 to November 1997; (5)
 22 Timothy D. Cook, the Company's current Chief Operating Officer; (6) Guerrino DeLuca, a
 23 Company officer from 1992 to 1997; (7) Ian Diery, a Company officer from 1989 to April 1995
 24 and the Computer Division's General Manager from July 1993 to April 1995; (8) G. Frederick
 25 Forsyth, a Company officer from June 1989 to February 1998 and a Senior Vice President of
 26 Worldwide Operations from June 1993 to February 1998; (9) Ronald B. Johnson, currently a
 27 Senior Vice President, Retail; (10) Mitchell Mandich, a Company officer from February 1997
 28

to October 2000 and a Senior Vice President of Worldwide Sales from December 1997 to October 2000; (11) Jonathan Rubinstein, a Company officer from February 1997 to May 2006 and the Company's Senior Vice President of the iPod Division from May 2004 to March 2006; (12) Michael H. Spindler, a Company officer from 1980 to February 1996 and the Company's CEO from June 1993 to February 1996; and (13) Avadis Tevanian, Jr., a Company officer from February 1997 to March 2006 and the Company's Chief Software Technology Officer from July 2003 to March 2006.

47. Option grants to the executive officers identified in the immediately preceding paragraph, as disclosed in the relevant proxy statements, are reflected in the table below:

<u>Option Recipient</u>	<u>Purported Grant Date²</u>	<u>Exercise Price³</u>	<u>Number of Options Granted</u>
Jobs	01/12/00	\$ 43.5938	20,000,000
	10/19/01	\$ 18.30	7,500,000
Anderson	04/01/96	\$ 24.56	400,000
	07/11/97 ⁴	\$ 13.25	500,000
	08/05/97	\$ 19.75	250,000
	12/19/97 ⁵	\$ 13.6875	250,000
Anderson (cont.)	03/02/99	\$ 34.625	475,000
	01/17/01	\$ 16.8125	1,000,000
Buckley	10/12/93	\$ 23.75	15,000
	12/20/93	\$ 29.50	30,000
	01/26/94	\$ 33.875	20,000
	04/27/95	\$ 38.25	200,000
Calderoni	08/05/97	\$ 19.75	80,000
Cook	02/02/98	\$ 17.6875	700,000
	03/02/99	\$ 34.625	300,000
	01/17/01	\$ 16.8125	1,000,000
DeLuca	07/11/97	\$ 13.25	309,750
	08/05/97	\$ 19.75	190,250

² The proxy statements from which the purported grant dates were derived state in substance that all options granted under the applicable stock option plans expire ten years from the date of grant. The "Option Grants In Last Fiscal Year" table in the proxy statements, which specifies option grants that occurred during the fiscal year, provides an expiration date for each individual grant. The reader of the proxy statement, therefore, is able to determine that the purported grant date was ten years prior to the stated expiration date.

³ Exercise prices and number of options granted are as listed in the proxy statement first reporting the option grant and, where applicable, reflect the Company's two-for-one stock split in June 2000. Exercise prices and number of options granted do not reflect the Company's two-for-one stock split in February 2005.

⁴ The options granted to Anderson and others on July 11, 1997 were granted pursuant to the Company's "Exchange Program," under which certain "out of the money" or "underwater" options were "re-priced."

⁵ The options granted to Anderson and others on December 19, 1997 were granted pursuant to the Company's "Exchange Program," under which certain "out of the money" or "underwater" options were "re-priced."

<u>Option Recipient</u>	<u>Purported Grant Date²</u>	<u>Exercise Price³</u>	<u>Number of Options Granted</u>
Diery	10/12/93	\$ 23.75	40,000
	12/20/93	\$ 29.50	90,000
Eilers	10/03/94	\$ 33.69	200,000
	04/27/95	\$ 38.25	60,000
Forsyth	04/27/95	\$ 38.25	40,000
Johnson	12/14/99	\$ 47.4375	1,200,000
Mandich	12/19/97	\$ 13.6875	224,250
	12/29/97	\$ 13.125	200,000
	03/02/99	\$ 34.625	387,876
Rubinstein	07/11/97	\$ 13.25	200,000
	08/05/97	\$ 19.75	300,000
	12/19/97	\$ 13.6875	300,000
	03/02/99	\$ 34.625	458,334
	01/17/01	\$ 16.8125	1,000,000
Spindler	10/13/93	\$ 24.00	200,000
Tevanian	01/17/01	\$ 16.8125	1,000,000

48. In a pattern that cannot be attributed to happenstance, each of the foregoing options were purportedly granted on dates that fell just after a sharp dip and just before a sizeable jump in Apple's stock price as demonstrated in the table below:

<u>Purported Grant Date</u>	<u>Exercise Price</u>	<u>Share Price Ten Business Days Before Grant Date</u>	<u>Share Price Ten Business Days After Grant Date</u>	<u>Percentage Gain In Stock Price Ten Business Days After Grant Date</u>
10/12/93	\$23.75	\$24.75	\$29.75	25.3%
10/13/93	\$ 24.00	\$23.87	\$31.75	32.3%
12/20/93	\$29.50	\$32.25	\$31.50	6.8%
01/26/94	\$33.875	\$30.50	\$36.25	7.0%
10/03/94	\$33.69	\$35.50	\$39.75	18.0%
04/27/95	\$38.25	\$39.00	\$41.00	7.2%
04/01/96	\$24.56	\$26.12	\$25.87	5.3%
07/11/97	\$13.25	\$14.69	\$16.25	22.6%
08/05/97	\$19.75	\$16.56	\$24.44	23.7%
12/19/97	\$13.6875	\$15.81	\$18.94	38.4%
12/29/97	\$13.125	\$14.13	\$19.50	48.6%
02/02/98	\$17.6875	\$18.81	\$19.62	10.9%
03/02/99	\$34.625	\$38.31	\$35.50	2.5%
12/14/99	\$47.4375	\$48.935	\$50.345	6.1%
01/12/00	\$43.5938	\$50.345	\$55.00	26.2%
01/17/01	\$16.8125	\$14.88	\$21.62	28.6%
10/19/01	\$18.30	\$16.14	\$18.57	1.5%

1 49. Apple has admitted, via a Restatement issued in December 2006, with respect to
2 more than 6,400 stock option grants on forty-two separate dates, the purported grant date was
3 *not* the true date on which the stock option grants were made. Instead, the Stock Option
4 Committee, the Compensation Committee or the full board of directors (for the grants to
5 defendant Jobs and those grants applicable to the period from April 2000 to August 2001 when
6 the full board of directors had responsibility for administering stock options) improperly
7 backdated stock option grants. And, during the period from April 2000 to August 2001 when
8 the full board of directors had responsibility for administering options plans, the full board
9 honored the exercise of backdated options previously awarded by the Compensation
10 Committee or Stock Option Committee.

11 50. Based on the Company's admission of backdating in more than 6,400 instances
12 on forty-two separate dates, there are clearly many more individuals who received backdated
13 grants than those identified above. Indeed, the Company's proxy statements reveal that during
14 the period from 1993 through 2001, in addition to the option grants to acquire an aggregate
15 39,120,460 shares of Apple's common stock to the identified officers as reflected in the table
16 above, options to acquire an additional 64,834,039 shares were made to numerous Company
17 employees other than those identified above. In its restatement, however, except for option
18 grants to defendant Jobs, the Company has not provided the identity of individuals who
19 received backdated grants. As a result, at this time, Plaintiffs' investigation has revealed only
20 the foregoing instances of backdating based on statistical analyses. Many more instances of
21 backdating will be specifically identifiable with the benefit of proper discovery.

22 **C. APPLE IS FORCED TO RESTATE ITS FINANCIAL REPORTS DUE TO EXTENSIVE**
23 **BACKDATING**

24 51. The Company's announcement, on June 29, 2006, of "irregularities" in its
25 historic accounting for stock options shocked the market and precipitated a fall in the market
26 value of Apple by over \$7 billion. After that announcement, Apple slowly eked out further
27 admissions relating to its backdating practices.
28

1 52. On August 3, 2006, Apple announced that: (a) it found “additional evidence of
2 irregularities” in its accounting practices; (b) it would likely need to restate its earnings as the
3 result of failing to properly record compensation expenses relating to option grants; and (c) the
4 market should no longer rely on the Company’s financial statements or earnings releases from
5 September 29, 2002 going forward.

6 53. On October 4, 2006, Apple announced that its continuing investigation “raised
7 serious concerns regarding the actions of two former officers in connection with the
8 accounting, recording and reporting of stock option grants” and that “Apple CEO Steve Jobs
9 was *aware* that favorable grant dates had been selected.” (Emphasis added.) Defendant Fred
10 Anderson, the Company’s former Chief Financial Officer and a director since 2004 who was
11 forced to resign his directorship effective September 30, 2006, and Nancy Heinen, the
12 Company’s former General Counsel and Secretary who left mysteriously and without
13 announcement by Apple in May 2006, are the officers referenced in the October 4th press
14 release.

15 54. In its Form 10-K for the fiscal year ended September 30, 2006 (filed with the
16 SEC on December 29, 2006) (the “2006 Annual Report”), Apple announced the results of the
17 internal investigation that had continued since the October 4th announcement of the
18 investigation’s interim findings. Apple also restated certain financial results.

19 55. Specifically, the 2006 Annual Report discloses that Apple’s outside counsel and
20 a team of forensic accountants examined the circumstances surrounding stock option grants
21 made between October 1996 and January 2003. The investigation examined some unidentified
22 grants after January 2003 and “sampled” certain unidentified grants between 1994 and 1997,
23 but failed to examine any grants made during 1993.

24 56. First, the 2006 Annual Report states that stock option:

25 grant dates were *intentionally* selected in order to obtain favorable
26 exercise prices. The terms of these and certain other grants...were
27 finalized *after* the originally assigned grant dates.

28 (Emphasis added). In other words, options were intentionally backdated.

1 57. Second, the 2006 Annual Report admits that the first instance of backdating that
2 was concealed from shareholders occurred more than ten years ago on December 29, 1997 and
3 that since then at least 6,428 stock option grants occurring on forty-two separate dates were
4 backdated. These 6,428 instances of backdating resulted in “instant paper profits” for
5 executives that, according to the investigation, required Apple to recognize stock-based
6 compensation expense of \$105 million and \$84 million on pre-tax and after-tax bases,
7 respectively.

8 58. As a consequence, Apple restated: (a) its consolidated balance sheet as of
9 September 24, 2005, and the related consolidated statement of operations, shareholders’ equity,
10 and cash flows for each of the fiscal years ended September 24, 2005 and September 24, 2004,
11 and each of the quarters in 2005; and (b) “Selected Consolidated Financial Data” in Item 6 for
12 the fiscal years ended September 2005, 2004, 2003 and 2002, and “Management’s Discussion
13 and Analysis of Financial Condition and Results of Operations” in Item 7 for the fiscal years
14 ended September 24, 2005 and September 25, 2004.

15 **D. INVESTIGATIONS REVEAL INTENTIONAL MISCONDUCT ON THE PART OF THE**
16 **INDIVIDUAL DEFENDANT AND RECKLESS CONDUCT ON THE PART OF APPLE’S**
17 **BOARD OF DIRECTORS.**

18 59. Continuing investigations and evidence uncovered since Apple’s restatement
19 have revealed a startling picture of intentional misconduct and concealment on the part of the
20 Individual Defendants in this action. It is important to understand the context in which Apple’s
21 backdated options and the motive behind concealing these expenses from investors, while still
22 rewarding its employees with lucrative compensation.

23 60. Prior to 2006, when the accounting rules were revised to require the expensing
24 of all grants of stock options, option awards were, effectively, a cost-free way for a Company
25 to reward its employees. Costless, of course, if the options were truly awarded at prices at or
26 above the fair market value of the company’s stock. For companies facing pressures to meet
27 earnings while still having to reward employees with competitive compensation, options
28 provided relief. Option grants were particularly attractive, and indeed preferable to money in

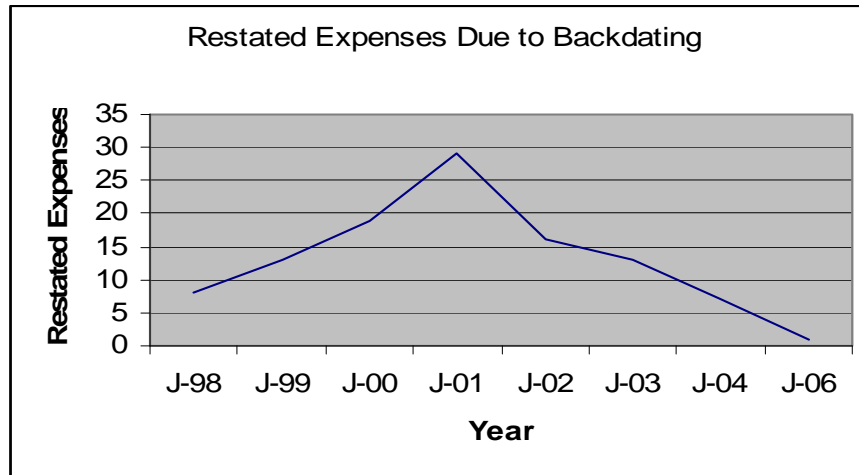
hand, during the technology boom of the 1990s, when stock prices of technology companies were soaring at an dramatic rate.

61. In a declining stock market, however, option grants as a reward to an employee are nearly worthless. This is because the options will likely never achieve “in the market” status if the stock continues to decline after the grant date. This was precisely the problem facing Apple during the period when it accelerated the backdating of option grants to its executive employees.

62. As seen by the graph below, beginning at the end of 2000, Apple’s stock price began a massive decline. In addition, as set forth below, Apple’s financial performance also suffered a dramatic decline beginning with Apple’s financial performance for Apple’s fiscal year beginning in October 2000:



63. It is no coincidence, therefore, that the size of the restatement required for backdated transactions coincides with the period in which Apple was suffering the most acute financial distress and pressure to minimize expenses. According to Apple’s restatement, Apple improperly recorded expenses relating to backdating as follows:



64. Thus, during a period when Apple's financial performance was strained and its stock price was declining, Apple was accelerating the backdating of options, which allowed it to conceal additional compensation expenses while giving its executives a significant head start on realizing value on options.

65. In its Restatement, Apple admits that for 6,428 grants of options awarded on 42 different dates, the recorded measurement date for the option award was not the true measurement date. An examination of Apple's restatement, however, reveals that of the 6,428 grants of options awarded which Apple concedes were incorrectly dated, 5,767, according to Apple, were the result of ministerial or administrative failures for options awarded to lower level employees. According to Apple's restatement, these 5,767 option grants contributed to \$37 million of the \$105 million additional stock expense in the Restatement.

66. Tellingly, however, the bulk of the Restatement--\$68 million—is due to options awarded to Apple's senior executives—and Apple essentially concedes that these option grants were *intentionally* manipulated. According to Apple, “these grants were not made pursuant to pre-established guidelines adopted by the Board or the Compensation Committee.” In other words, Apple's senior executives and directors gave themselves *carte blanche* authority to price options awarded to themselves as they saw fit. Thus, during the period of Apple's

1 Restatement, there were 1,082 grants of options to senior Apple executives and 668 of these
2 grants, Apple essentially admits, were manipulated.

3 **E. THE PARTICIPANTS TO THE SCHEME**

4 67. The intentional backdating of Apple's stock options to senior executives
5 required the concerted actions of three groups of people: (1) the senior executives who
6 received the options who clearly knew that they were receiving options "in the money; (2)
7 senior executives who were charged with approving the options and setting their pricing; and
8 (3) the Company's Board of Directors, particularly the Compensation Committee of the Board
9 of Directors, who had to approve option grants to senior executives and who either knew or
10 should have known when and where they approved the grants for options. Importantly, each of
11 these groups of people, as described below, were also responsible for reporting the Company's
12 financial performance and other material issues to the Company's shareholders.

13 68. Each of these three groups of people intentionally flouted the rules and
14 intentionally deceived Apple's shareholders. In the examples set forth below, Apple's
15 backdated options were both priced and approved by the very executives who received the
16 financial benefits of the grants, and were approved by a Board of Directors who were expressly
17 informed that these grants had been backdated.

18 69. As detailed below, Anderson, the Company's CFO during the backdating,
19 plainly knew of the accounting implications of backdating, and was a financial beneficiary of
20 the scheme.

21 70. Heinen, the Corporate Secretary and chief legal officer, falsified documents to
22 conceal the backdating, thus evidencing a clear understanding of the illegality of her actions
23 and her culpability in the scheme.

24 71. Jobs, the single largest beneficiary of the backdating of stock options, not only
25 *knew* that options were being backdated (his included), but also participated in the backdating
26 of stock options at another company – Pixar – thus demonstrating his knowledge of the
27 manipulative process of backdating. Although purportedly cleared of wrongdoing in an
28 obviously self-serving provision of the December 2006 restatement, the truth of the matter is

1 that Jobs, as CEO, repeatedly *certified* to the investing public the truth of Apple's financial
2 statements, and thus *certified* the truth of the Company's disclosures regarding the dates that
3 stock options purportedly were granted, which Apple now *admits* were false.

4 72. The 20(a) Defendants, as members of Apple's Compensation and Audit
5 Committees, had a responsibility, at the very least, to make sure that the Company's disclosures
6 regarding its compensation and accounting practices were accurate. Here, however, the 20(a)
7 Defendants had *specific knowledge* of the backdating, but nonetheless did nothing to prevent
8 the prevent the Company from publishing financial reports and disclosures that they thus *knew*
9 were false.

10 73. Apple's backdating scheme and the role of these defendants is epitomized by
11 two of the most significant option grants during the Class Period, which collectively concealed
12 Apple's expenses by more than \$40 million during a period of strained earnings for the
13 Company *i.e.* during Apple's fiscal year 2002.

14 **1. The October 19, 2001 Steve Jobs Grant**

15 74. On December 18, 2001, Apple's Board of Directors, including Defendants
16 Campbell, Drexler, Levinson and York and Defendant Jobs, concluded lengthy negotiations
17 over the terms of a 7.5 million share options grant to Jobs. At that time, the share price of
18 Apple stock was \$21.01.

19 75. However, each of the Individual Defendants conspired to backdate the grant to
20 Jobs to October 19, 2001, when Apple's share price was only \$18.30, and the strike price for
21 the grant was set at this substantially lower price. Defendant Heinen created fictitious Board
22 minutes that purported to show that the Board had approved the grant to Jobs on October 19 at
23 a "Special Meeting," which never occurred. By so doing, Apple improperly failed to record
24 \$20.3 million in compensation expense associated with the in-the money options grant to Jobs.

25 76. While Defendant Heinen played a central role in orchestrating the backdating of
26 Job's grant, both Jobs as recipient and the Board of Directors also played central roles.
27 Beginning in the spring of 2001, the Board began considering ways to increase Jobs's
28 compensation. Since returning to Apple in July 1997, Jobs had been paid only \$1 a year in

1 compensation for his services. Although he had received a grant of 10 million options in
2 January 2000, those options were significantly underwater as a result of declines in Apple's
3 stock price.

4 77. On August 29, 2001, Apple's Board approved a grant of options to Jobs to
5 purchase 7.5 million shares of Apple common stock.

6 78. Shortly after the Board approved the 7.5 million option grant, Jobs expressed
7 dissatisfaction with its vesting schedule. Over the course of the next three months, Apple's
8 Compensation Committee (*i.e.* Defendants Drexler, Levinson and York), spoke frequently
9 amongst themselves and with Jobs about the grant, holding multiple discussions and conference
10 calls, including Compensation Committee meetings on October 16 and 19 and November 19
11 and 20. Defendant Heinen, too, was aware of and involved in these discussions, and she
12 attended the Compensation Committee meetings in her role as Corporate Secretary.

13 79. As learned from the SEC's investigation into Apple's backdating, as the
14 Compensation Committee's discussions with Jobs continued, there were concerns expressed,
15 especially by Heinen, about the delay in reporting the Board's decision to grant Jobs an option
16 on August 29. Apple had missed the November deadline by which Apple was supposed to file
17 a Form 4 with the SEC reporting the specifics of Jobs's August 29 options grant. In addition,
18 Heinen also foresaw a problem with the auditors, since Apple's fiscal year had concluded at the
19 end of September, yet Apple had not disclosed the grant to KPMG.

20 80. By mid-December, the Individual Defendants began to consider the possibility
21 of selecting a different grant date in the new fiscal year, given the time elapsed since the
22 August date. On December 17--by which time Apple's stock price had risen significantly -
23 Heinen forwarded a spreadsheet to the chair of Apple's Compensation Committee, Defendant
24 York, detailing three months of Apple's closing prices and recommending the selection of a
25 day for the backdated options grant. She wrote: "There are several days in October and
26 November, following the first meeting of the Compensation Committee on October 16th and
27 after our earnings call on October 17th, that are close to the Aug. 29th close of \$17.83. I
28

1 suggest using a day that the Compensation Committee held a telephone call, either jointly or
2 individually with the members.”

3 81. On December 18, 2001, the Compensation Committee and Jobs finally came to
4 an agreement on the vesting schedule for the 7.5 million share grant. The following day, the
5 chair of the Compensation Committee, Defendant York e-mailed Apple’s Board to let them
6 know the specifics of the grant, including the fact that the date of grant would be October 19,
7 2001, which corresponded to the date, of a Compensation Committee call. He noted: “For the
8 record, I informed Nancy [Heinen] in advance of our intentions and of the above specifics to be
9 certain we were conforming to all legal requirements/guidelines.”

10 82. On December 18, 2001, Apple’s common stock closed at \$21.01. Hence, by
11 retroactively repricing the grant to October 19 (when the stock closed at \$18.30), the Individual
12 Defendants caused Apple to award Jobs 7.5 million in-the-money options while avoiding
13 reporting approximately \$20.3 million in pre-tax compensation expense.

14 83. The net result of the pretense that the grant of these options was approved at an
15 October 2001 board meeting is this: CEO Jobs was given an “instant paper profit” in the
16 amount of \$20,325,000 (*i.e.*, \$21.01 minus \$18.30 multiplied times 7.5 million shares) that was
17 never disclosed to shareholders. A graphic display of how the exercise price for this grant was
18 retroactively cherry-picked from almost two months’ worth of Apple closing prices is set forth
19 below:



1 84. To substantiate October 19, 2001 as the grant date for Jobs's grant, Heinen had
2 fictitious minutes created for a phony "Special Meeting" of Apple's Board of Directors.
3 Minutes purporting to be from the October 19, 2001 Special Meeting state that all of the Board
4 members (other than Jobs) met to discuss CEO compensation. According to the minutes, the
5 Board voted to approve a grant to Jobs of an option to purchase 7.5 million shares at an
6 exercise price equal to the closing price on the date of the grant (October 19). In fact, no such
7 meeting occurred.

8 85. Following the Board's knowing approval of backdated options, Heinen, the
9 Corporate Secretary, was directed to cover up the evidence that the Board had backdated the
10 options and instead create a paper trail evidencing a contemporaneous approval of the options.
11 Heinen directed her staff to prepare the "Special Meeting" minutes in January 2002. After the
12 draft was prepared, Heinen reviewed and signed the minutes as Corporate Secretary, falsely
13 certifying that the minutes were accurate. According to Heinen, the cover-up was done at the
14 direction of her superiors.

15 86. Heinen similarly signed a "Secretary's Certificate," included with the Board
16 minutes, falsely attesting that the Board met on October 19, 2001 and in that meeting granted
17 Jobs the options to purchase 7.5 million shares at the exercise price of 818.30 a share (the
18 October 19 closing price).

19 87. Heinen affixed Apple's corporate seal to the document and attested that she did
20 so on November 2, 2001. However, this document was not even created until January 2002,
21 making Heinen's certification patently false.

22 88. Heinen also caused the alteration of previously-approved official corporate
23 minutes from the August 29, 2001 Board meeting and the October 16, 2001 Compensation
24 Committee meeting in order to conceal the backdating. Draft minutes for the August 29
25 meeting, which were reviewed and approved by Heinen, stated that the Board, in executive
26 session, "granted Mr. Jobs a stock option under the 1998 Executive Officer Stock Plan to
27 purchase 7.5 million shares of common stock."
28

1 89. These draft minutes were circulated to the Board before the November 13, 2001
2 regularly-scheduled Board meeting and approved at that meeting. However, the official
3 minutes that appear in Apple's Minutes Books (which were provided to the company's
4 auditors) were altered to delete the reference to the Jobs grant, instead simply noting that the
5 Board authorized the Compensation Committee to establish compensation arrangements for
6 Jobs. The changed minutes were not presented to the Board for approval. Heinen signed the
7 modified minutes, thus falsely attesting to their accuracy.

8 90. Similar alterations were made to the draft minutes of the October 16, 2001
9 Compensation Committee meeting. The draft minutes, which Heinen had reviewed and
10 approved, indicated that the Compensation Committee "discussed options granted to Steve Jobs
11 at the August 29, 2001 Board meeting." Again, the official corporate minutes for Apple were
12 altered to remove this reference. Heinen signed the fraudulently redacted October 16 minutes,
13 thus falsely attesting to their accuracy.

14 91. As a result of the Individual Defendants' actions, Apple failed to record an
15 expense for the Jobs grant in the financial statements included in Apple's Form. 10-K for its
16 fiscal year ended September 28, 2002. This failure caused Apple to materially overstate its
17 operating income by 47.1% and its net income by 9.2%, for the 2002 fiscal year. In addition,
18 Apple sold securities pursuant to offering documents, including registration statements on
19 Forms S-8 filed September 28, 2001, December 24, 2001, and December 24, 2002, which
20 incorporated the false financial statements. In such filings, Apple also falsely represented that it
21 did not recognize any compensation expense for options because it did not grant in-the-money
22 options. In addition, Apple's Form 10-K for its fiscal year ended September 29, 2001 omitted
23 that Apple's Board of Directors had approved a grant to Jobs on August 29, 2001.

24 92. Apple's proxy statement for fiscal year 2002, signed by Defendants Jobs,
25 Campbell, Drexler, York, and Levinson (Heinen signed the cover letter that accompanied the
26 proxy) filed March 24, 2003, also falsely disclosed that "in October 2001 the Compensation
27 Committee recommended and the Board approved Jobs's 7.5 million options grant],” and that
28 Jobs's options were granted at \$18.30 per share, which was “equal to the fair market value of

1 the Common Stock on the date of grant.” In addition, Apple’s proxy statement for fiscal year
2 2001, filed March 21, 2002, omitted to state that Apple’s Board of Directors had approved a
3 grant to Jobs on August 29, 2001. Heinen assisted with the preparation of Apple’s proxy
4 statements, and Heinen reviewed the statements for accuracy and completeness prior to filing.

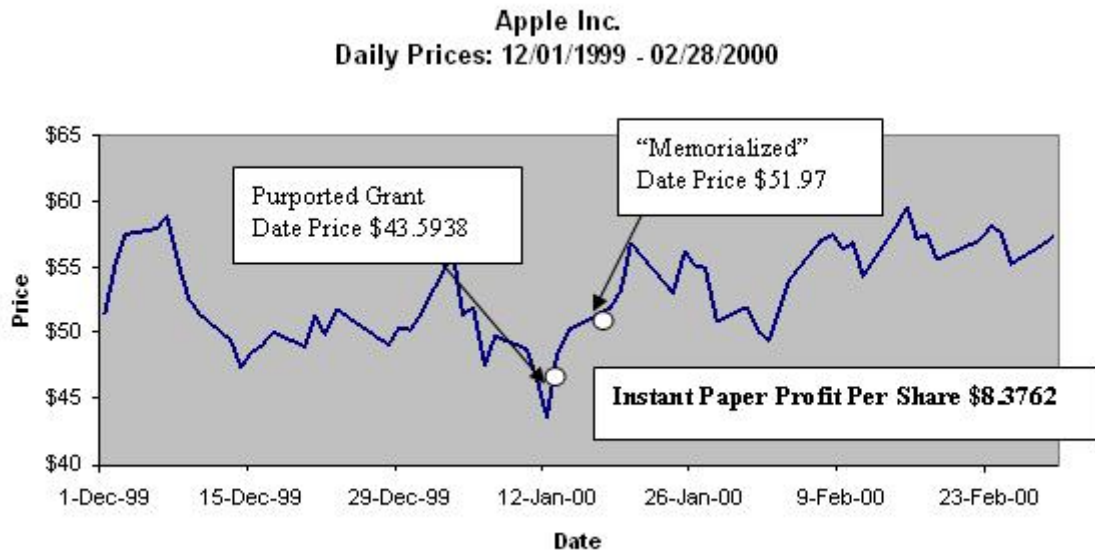
5 93. The Individual Defendants were aware, or recklessly failed to learn, that Apple’s
6 outside auditors, KPMG, received only the doctored grant documents. KPMG received a copy
7 of the fabricated minutes from the October 19 “Special Meeting” of the Board of Directors, as
8 well as Heinen’s Secretary’s Certificate vouching for those minutes. Heinen knew that Apple
9 routinely furnished minutes from Apple Board meetings to KPMG as part of KPMG’s review
10 and that KPMG would rely on the expurgated August 29 Board minutes, which were altered to
11 delete any reference to the original 7.5 million share grant.

12 **2. The January 2000 Grant to Steve Jobs**

13 94. Incredibly, the option grant to Steve Jobs in the winter of 2001 was not the first
14 time Apple misled its shareholders about CEO Jobs’s receipt of backdated options. Jobs
15 received an even larger grant of 10 million options (not split-adjusted) in January 2000.
16 Apple’s March 12, 2001 proxy statement informed shareholders that these options “were at an
17 exercise price equal to the fair market value of [Apple’s common stock] on the date of grant.”
18 The proxy statement further asserted that the grant date was January 12, 2000, a date when
19 Apple’s stock price closed at \$43.5938. These statements were false.

20 95. As Apple has admitted, this grant was not “memorialized” until six days later on
21 January 18, 2000. What happened during this six-day period? Apple’s stock price ran up from
22 \$43.5938 to \$51.97 - a jump of almost 20%. Only then (on January 18, 2000) was board action
23 taken to memorialize the grant. But, the exercise price assigned was not the January 18 Apple
24 closing price of \$51.97; rather Jobs was given the much lower pre-run up closing price from six
25 days earlier. Since the actual grant date on which the award was memorialized was January 18,
26 2000, the assigned exercise price should have been \$51.97 -- Apple’s January 18 closing price
27 representing the fair market value of Apple’s shares on the *true* date of grant.

96. The net result is that CEO Jobs was given an “instant paper profit” in the amount of \$83,762,000 (*i.e.*, \$51.97 minus \$43.5938 multiplied times 10 million shares) that was never disclosed to shareholders:



97. While Apple has excluded this option grant from its Restatement on its claim that the option grant was authorized on January 12, 2000 but not formally approved on January 18, 2000, the net effect of this additional \$84 million expense would be to almost double Apple’s \$105 million restatement.

98. Misrepresentations to shareholders concerning CEO Jobs’ stock-based compensation did not end with these two massive stock option grants in 2000 and 2001. In exchange for these backdated options, Jobs received other compensation tainted by backdating. In Apple’s subsequent proxy statements for the years 2003, 2004 and 2005, Apple stated that in March 2003, CEO Jobs voluntarily cancelled these options and the Board instead awarded him ten million (split adjusted) shares of restricted stock. (At today’s prices, these shares carry a value in excess of \$1.8 billion.) No mention was made, however, of the falsification of documents to cover up the phantom board meeting or that the options in exchange for which CEO Jobs received the restricted stock had been backdated.

1 **3. The Individual Defendants' Scheme to Backdate the January 17,**
 2 **2001 Grant to Senior Apple Executives**

3 99. In early February 2001, Apple finalized the terms of a 4.8 million options grant
 4 to six members of Apple's executive team (the "Executive Team"), including one million
 5 options for Defendant Anderson and 400,000 for Defendant Heinen. At the time, Apple's stock
 6 was trading at nearly \$21 per share. As revealed by the SEC's investigation into Apple's
 7 backdating, once again, a combination of Jobs, Heinen, Anderson and Apple's Board of
 8 Directors, caused Apple to backdate the grant to the Executive Team to January 17, 2001, when
 9 Apple's share price was only \$16.81. Heinen also directed her staff to prepare documents that
 10 falsely indicated that Apple's Board had approved the Executive Team grant on January 17.
 11 The difference between the price of the option had it been priced at the actual grant date and the
 12 price at which it was actually set was \$18.9 million. This amount should have been accounted
 13 for as a compensation expense in the first quarter of 2001.

14 100. Heinen, working in conjunction with Jobs, picked the earlier date to price the
 15 January 17, 2001 grant. Around late 2000, Apple's Board had begun considering a large
 16 options grant to Apple's Executive Team. On January 30, 2001, Heinen provided Jobs with a
 17 list of the daily closing share prices of Apple's common stock for January 2001 and suggested
 18 that Apple use an earlier date and price for the Executive Team options grant.

19 101. In her January 30 email to Jobs, Heinen wrote: "There are 6.68m shares
 20 available for grant in the 1998 Executive Officer plan. To avoid any perception that the Board
 21 was acting inappropriately [sic] for insiders prior to MacWorld announcements, I suggest we
 22 use Jan. 10, the day after your MacWorld keynote, at \$16.563. That was one of the lowest
 23 closes of the month, after the \$14.875 price on Jan 2. I don't think the [Executive Team] would
 24 object to the \$1.688 difference to avoid claims of inappropriate conduct."

25 102. On January 31, 2001, Heinen sent the same set of January closing prices to
 26 Anderson and recommended picking Tuesday, January 17 or Monday, January 22 as ostensible
 27 grant dates. Heinen subsequently corrected her earlier email noting that the 16th actually fell on
 28 a Tuesday. Anderson replied, "Tuesday the 16th looks fine to me."

103. The following day, February 1, 2001, Heinen told Anderson that Jobs agreed to use Apple's closing price on January 17, 2001 for the Executive Team grant. Heinen began the process of preparing false paperwork to submit to Apple's Board of Directors so that it could authorize the grant. That same day, Heinen directed a lawyer in Apple's legal department to prepare a Unanimous Written Consent ("UWC") for the Board's signature, with an "effective date of Jan. 17, 2001, priced at \$16.813." Contrary to these representations, no actual Board action was taken on January 17, and Heinen only began the process of selecting the grant date and price on January 30.

104. Once the UWC was finalized, Heinen then forwarded the options grant paperwork to Apple's Board, with a copy to Anderson. Heinen's cover memorandum (dated February 1) asked the Board to sign and return the UWC to her by fax, "if approved." Apple's directors—including Defendants Campell, Drexler, Levinson, York and Ellison subsequently signed the UWCs and returned them to Heinen.

105. Heinen received the UWCs by February 7, 2001. Apple's stock closed at \$20.75 per share on that date, approximately \$3.94 higher than the January 17 price used for the Executive Team grant. As a result, the Executive Team grant was in the money by approximately \$3.94 per share.

106. The concealment of this compensation expense that should have been recorded as an expense in the first quarter of 2001 helped Apple meet its earnings expectations for that quarter. As reported by one analyst, Apple's earnings exceeded analyst earnings estimates for the quarter despite a "difficult economic market":

Buoyed by a lineup of new products, Apple (NSDQ:AAPL) Computer topped earnings projections for its second quarter ended March 31, posting net profit of \$40 million, or 11 cents per diluted share, excluding investment gains and losses. The earnings results soared past a Thomson Financial consensus estimate of 1 cent per share, with a high forecast of 7 cents per share and a low of an 8-cent-per-share loss. Including after-tax gains and charges, Apple's second-quarter earnings were \$43 million, or 12 cents per diluted share. In the year-ago quarter, the company's earnings totaled \$233 million, or 64 cents per diluted share. Apple's revenue for second-quarter 2001 was \$1.43 billion, a 26 percent decline from sales a year earlier. Overall, the company shipped 751,000 Macs during the quarter, up from 659,000 in the first quarter. The Cupertino,

Calif.-based computer maker's second-quarter results reflect a rebound from a disappointing first-quarter 2001, when revenue was down 57 percent year-over-year to \$1 billion and the company posted a \$195 million net loss. Gross margins also improved to 26.9 percent, up from minus 2.1 percent in the first quarter. "We're very pleased that our results exceeded expectations in a very difficult economic environment," said Apple CFO Fred Anderson in a call with financial analysts. "Most importantly, we returned the company to profitability."

Russell Redman, *Apple Gets 2Q Earnings Lift*, CRN (April 20, 2001)

107. It is now clear that Apple's earnings announcement concealed the fact that Apple failed to take at least \$18.9 million expense in that quarter and thereby inflated earnings for not only the first quarter of 2001, but for the entire year.

108. These examples of Apple's backdating are only two of the 661 option grants to Apple's senior executives that Apple *admits* were backdated or the dates manipulated. As set forth below, these instances of backdating materially inflated Apple's earnings and understated Apple's expenses.

109. As a result of Apple has admitted that the effect of these misdated option grants was to understate its expenses, and thus overstate net income, over this period by \$105 million. By Apple's own admission, the bulk of the restated expenses, more than \$68 million, are the result of backdated options awarded to Apple's executives and its CEO stemming from *intentional misconduct*.

110. On an annual basis, the effect of the expenses on Apple's net income during the Class Period, prior to the change in the backdating rules in 2002, are dramatic:

Fiscal Year (September through September)	Original Reported Income (Loss) in millions	Actual Income (Loss) in millions
2001	\$(25)	\$(38) ⁶
2002	\$65	\$42 (as restated)
2003	\$69	\$57 (as restated)
2004	\$276	\$266 (as restated)
2005	\$1335	\$1328 (as restated)

⁶ Calculated by subtracting additional after tax expenses from reported net loss

111. As result of its inflated income during the Class Period and understated expenses, reported to investors through a series of false and misleading statements in Apple's public filings and press releases, Apple's share price was artificially inflated during the Class Period.

VI. FALSE AND MISLEADING STATEMENTS

112. Prior to and during the Class Period, the Defendants made numerous public statements omitting material facts and deliberately misrepresenting Apple's financial performance, executive compensation, and associated expenses. As a result, Apple's public statements disseminated during the Class Period were materially false and misleading and the price of Apple's securities was artificially inflated throughout the Class Period. When the truth about Defendant's unlawful options backdating were finally disclosed, investors in Apple lost millions of dollars as the price of Apple's shares lost significant value.

A. PROXY STATEMENTS

113. Prior to and during the Class Period, Apple published numerous false and misleading statements in its proxy statements which were relied upon by Class Members and which caused Apple's stock price to be materially inflated

114. From at least 1996 and through the Class Period, the Company, with the knowledge, approval, participation, or reckless disregard of each individual defendant (with respect to those disclosures made at a time when such defendant was an officer and/or director of the Company), disseminated to shareholders and filed with the SEC annual proxy statements that contained material misstatements and omissions falling into four general categories: (a) statements failing to disclose that the stated purpose of option grants by Apple – *i.e.*, aligning executive and shareholder interests – was significantly undermined because the option grants described in the proxies were backdated; (b) misstatements that the options granted were priced at the fair market value on the date of grant, when in fact they were backdated; (c) misstatements relating to the amount of compensation received by Apple executives during the relevant time; and (d) misstatements (with respect to certain proxy statements) relating to the

1 Company's intention to have executive stock options qualify for tax deductions under Section
2 162(m).

3 115. The Company's proxy statements were distributed to shareholders in connection
4 with, among other things, to secure shareholder approval of proposals offered by management,
5 including numerous votes seeking approval of the authorization for issuance of shares to be
6 used for executive compensation arrangements.

7 116. The materially misleading statements and omissions in each of these proxy
8 statements are set forth below. (Emphasis in passages excerpted from the proxy statements
9 described below is supplied and does not appear in the original.)

10 **1. 1997 Proxy**

11 117. Apple's definitive proxy statement dated December 26, 1996 filed with the SEC
12 on Form 14A for the annual meeting to be held February 5, 1997 (the "1997 Proxy") was
13 materially false and misleading. (Defendants Jobs, Campbell, and York were directors at the
14 time and signed the 1997 Proxy; Heinen signed the cover letter that accompanied the proxy;
15 Anderson was CFO at the time the proxy was disseminated and participated in its preparation
16 and/or reviewed and/or commented upon it.)

17 118. With respect to shareholders of record as of December 9, 1996, the 1997 Proxy
18 solicited shareholder votes to, among other things: (a) approve an amendment to the ESPP to
19 increase the number of shares reserved for issuance thereunder by 3.5 million shares; (b)
20 approve an amendment to increase the number of shares reserved for issuance under the 1990
21 Plan by one million shares; and (c) approve the Performance Share Plan for executive officers,
22 which plan provided for the issuance of up to two million shares of common stock.

23 119. The 1997 Proxy stated:

24 The Company's executive compensation programs are designed to
25 use Company performance, individual executive performance and
26 increasing stockholder value over time as determinants in
27 establishing levels of executive compensation. These design
28 principles are **intended to motivate executive officers** to improve
the financial position of the Company, hold executives accountable
for the performance of the organizations for which they are
responsible and to attract key executives into the service of the
Company.

120. This statement is misleading because it fails to disclose the instant paper profits being received by executives from backdating. Such profits may not motivate executives to improve the financial position of the Company because an executive does not necessarily need to work to improve the financial position of the Company to gain from the award. Unlike for shareholders, profit from backdated stock option awards is built-in from the outset.

121. The 1997 Proxy stated, in a footnote to a chart depicting option grants during the fiscal year, that “[a]ll options were granted at an exercise price equal to fair market value based on the closing market value of Common Stock on the Nasdaq National Market on the business day immediately preceding the date of grant.” These statements are false and misleading because they mislead investors regarding the actual compensation practices at Apple, and because the exercise prices, in fact, were *not* the fair market value of the Company’s common stock on the trading day immediately preceding the date of grant.

122. In addition, the Summary Compensation Table from the 1997 Proxy materially misstated the compensation of, and failed to disclose the illegal compensation received from the Company by, Spindler in fiscal years 1994 and 1995 and Anderson in fiscal year 1996 (and others) as a result of their receipt of backdated stock options at less than fair market value on the trading day immediately preceding the date of grant in fiscal years 1994, 1995 and/or 1996. The Summary Compensation Table is set forth below (certain footnotes detailing compensation unrelated to options are omitted):

SUMMARY COMPENSATION TABLE							
NAME AND PRINCIPAL POSITION	FISCAL YEAR	ANNUAL COMPENSATION			LONG-TERM COMPENSATION AWARDS		ALL OTHER COMPENSATION (\$)
		SALARY (\$)	BONUS (\$)	OTHER ANNUAL COMPENSATION (\$)	RESTRICTED STOCK (\$)	OPTIONS (#)	
Michael H. Spindler	1996	557,076	382,500				3,721,389
Former President and Chief Executive Officer*	1995	843,335	586,058			100,000	
	1994	684,922	249,500			200,000	

1	Gilbert F. Amelio	1996	655,061	2,334,000		3,830,580	1,000,000	3,060
2	Chairman of the Board	1995	**					
3	and Chief Executive	1994	**					
4	Officer							
5	Fred D. Anderson	1996	252,126	1,275,000			400,000	141,361
6	Executive Vice President	1995	**					
7	and Chief Financial	1994	**					
8	Officer							
9	Marco Landi	1996	526,454	367,438	114,768		400,000	54,570
10	Executive Vice President	1995	245,712	480,000	80,234		120,000	50,000
11	and Chief Operating	1994	***					
12	Officer							
13	John Floisand	1996	355,342	231,250	120,443		30,000	180,893
14	Senior Vice President,	1995	302,831	199,544			55,000	23,799
15	Worldwide Sales	1994	234,866	171,680			155,000	28,852
16	George M. Scalise	1996	245,189	767,813			240,000	4,104
17	Executive Vice President	1995	**					
18	and Chief Administrative Officer	1994	**					

123. Specifically, Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the “dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered...” (17 C.F.R. § 229.402(b)(2)(iii)(B)) Additionally, the Instructions to Item 402(b)(2)(iii)(A) and (B) further provide that the following items be disclosed in the Summary Compensation Table:

- (i) For stock or any other form of non-cash compensation, disclose the fair market value at the time the compensation is awarded, earned or paid.
- (ii) Above-market or preferential earnings on restricted stock, options, SARs or deferred compensation paid during the fiscal year or payable during that period...

- (iii) The dollar value of the difference between the price paid by a named executive officer for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise), and the fair market value of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant.

(*Id.*) In addition, the disclosures in the Summary Compensation Table of “Annual Compensation” and “Options” are materially misleading because they omit the additional compensation received as a result of the backdated options.

124. Further, the Option Grants in Last Fiscal Year table is materially misleading because it fails to include an additional column showing the market price on the date of the grant as required by Item 402(c)(2)(iv) even though options granted in fiscal year 1996 were backdated. The Option Grants in Last Fiscal Year table is set forth below:

					POTENTIAL REALISABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(1)	
		% OF TOTAL				
		OPTIONS/ SARS				
	OPTIONS/ SARS	GRANTED TO EMPLOYEES IN	EXERCISE OR BASE PRICE	EXPIRATION		
NAME	GRANTED (#)	FISCAL YEAR(2)	(\$/SH.)	DATE	5%(\$)	10%(\$)
Gilbert F. Amelio	1,000,000	10.13%	26.25	3/5/06	16,508,484	41,835,740
John Floisand	30,000	0.30%	19.88	6/27/06	374,978	950,269
Marco Landi	400,000	4.05%	28.50	11/7/04	7,169,399	18,168,664
George M. Scalise	240,000	2.43%	25.88	3/12/06	3,905,436	9,897,141
Michael H. Spindler*						

2. 1998 Proxy

125. Apple’s definitive proxy statement dated March 16, 1998 filed with the SEC on Form 14A for the annual meeting to be held April 22, 1998 (the “1998 Proxy”) was materially false and misleading. (Defendants Jobs, Campbell and York were directors at this time and signed the 1998 Proxy; Heinen signed the cover letter that accompanied the proxy; Anderson was CFO at the time the proxy was disseminated and participated in its preparation and/or reviewed and/or commented upon it.)

126. With respect to shareholders of record as of February 23, 1998, the 1998 Proxy solicited shareholder votes to, among other things: (a) “approve the 1997 Director Stock Option Plan which provid[ed] for the issuance of up to 400,000 shares of...common stock;” (b) approve the grant of 15,000 stock options each to defendants Chang and Wollard; (c) approve the reservation of 430,000 shares of common stock for issuance under the 1997 Director Stock Option Plan; and (d) approve the 1998 Plan and the reservation of 17 million shares for issuance thereunder.

127. The 1998 Proxy stated:

The Company’s executive compensation program utilizes Company performance, individual performance and an increase in stockholder value over time as determinants of executive pay levels. These principles are intended to motivate executive officers to improve the financial position of the Company, to hold executives accountable for the performance of the organizations for which they are responsible, to attract key executives into the service of the Company and to create value for the Company’s shareholders.

128. This statement is misleading because it fails to disclose the instant paper profits being received by executives from backdating. An increase in stockholder value over time cannot be a determinant of executive pay levels where instant paper profits from stock options are built-in at the time of the award. Such profits may not motivate executives to improve the financial position of the Company because an executive does not necessarily need to work to improve the financial position of the Company to gain from the award. Unlike for shareholders, profit from backdated stock option awards is built-in from the outset.

129. The 1998 Proxy stated “[d]uring fiscal year 1997, fourteen executive officers of the Company received new option grants under the 1990 Plan. Options are granted under the 1990 Plan at an exercise price equal to the fair market value of the Common Stock....”⁷ and, in a footnote to a chart depicting option grants during the fiscal year, “[a]ll options were granted at an exercise price equal to fair market value based on the closing market value of Common Stock on the Nasdaq National Market on the trading day immediately preceding the date of

⁷ This is the statement as it appears in the proxy statement. Apparently the words “on the date of grant” were inadvertently omitted.

grant. For administrative purposes, the Board on November 5, 1997 amended the Company's stock option plans to provide that the exercise price of options granted under such plans will be the fair market value based on the closing market value on the date of grant." These statements are false and misleading because they mislead investors regarding the actual compensation practices at Apple, and because the exercise prices, in fact, were not the fair market value of the Company's common stock on the trading day immediately preceding the date of grant.

130. In addition, the Summary Compensation Table from the 1998 Proxy materially misstated the compensation of, and failed to disclose the illegal compensation received from the Company by, Anderson in fiscal years 1996 and 1997 and Calderoni, DeLuca and Rubinstein in fiscal year 1997 as a result of their receipt of backdated stock options at less than fair market value on either the date of grant or the trading day immediately preceding the date of grant. The Summary Compensation Table is set forth below:

LONG-TERM COMPENSATION						
NAME AND PRINCIPAL POSITION	FISCAL YEAR	ANNUAL COMPENSATION		RESTRICTED STOCK AWARDS (\$)	SECURITIES UNDERLYING OPTIONS (#)	ALL OTHER COMPENSATION (\$)
		SALARY (\$)	BONUS (\$)			
Steven P. Jobs	1997				30,000	
Interim Chief Executive Officer	1996					
	1995					
Gilbert F. Amelio	1997	997,617	1,000,000	509,350		6,749,094
Former Chairman of the Board	1996	655,061	2,334,000	3,830,580	1,000,000	3,060
and Chief Executive Officer	1995					
Fred D. Anderson	1997	520,311		40,748	850,000	250,489
Executive Vice President	1996	252,156	1,275,000		400,000	141,361

1	and Chief					
2	Financial					
3	Officer	1995				
4	Guerrino De					
5	Luca	1997	430,496	322,732	30,561	700,000
6	Executive					
7	Vice					
8	President,	1996	269,034	104,489		78,000
9						
10	Marketing	1995				
11	Robert					
12	Calderoni	1997	288,058	75,000	9,547	125,000
13						
14	Senior Vice					
15	President,	1996	63,794	125,000		75,000
16						
17	Corporate					
18	Controller	1995				
19	Jonathan					
20	Rubinstein	1997	250,262	100,000	19,108	700,000
21						
22	Senior Vice					
23	President,	1996				
24						
25	Hardware					
26	Engineering	1995				
27	Ellen					
28	Hancock	1997	424,120	360,000		480,000
	Former					
	Executive					
	Vice					
	President	1996	111,646	200,000		300,000

131. Specifically, Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the “dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered...” (17 C.F.R. § 229.402(b)(2)(iii)(B)) Additionally, the Instructions to Item 402(b)(2)(iii)(A) and (B) further provide that the following items be disclosed in the Summary Compensation Table:

- (i) For stock or any other form of non-cash compensation, disclose the fair market value at the time the compensation is awarded, earned or paid.
- (ii) Above-market or preferential earnings on restricted stock, options, SARs or deferred compensation paid during the fiscal year or payable during that period...
- (iii) The dollar value of the difference between the price paid by a named executive officer for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise), and the fair market value of such security at the

date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant.

(*Id.*) In addition, the disclosures in the Summary Compensation Table of “Annual Compensation” and “Securities Underlying Options” are materially misleading because they omit the additional compensation received as a result of the backdated options.

132. Further, the Option Grants in Last Fiscal Year table is materially misleading because it fails to include an additional column showing the market price on the date of the grant as required by Item 402(c)(2)(iv) even though options granted in fiscal 1997 were backdated. The Option Grants in Last Fiscal Year table is set forth below:

		INDIVIDUAL GRANTS			POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(3)	
		PERCENT OF TOTAL OPTIONS				
	NUMBER OF SECURITIES	GRANTED TO EMPLOYEES IN				
	UNDERLYING OPTIONS GRANTED	FISCAL YEAR	EXERCISE OR BASE PRICE	EXPIRATION		
NAME	(#)	(1)	(\$/SH)(2)	DATE	5% (\$)	10% (\$)
Steven P. Jobs	30,000	0.15%	23.63	8/14/07	446,512	1,134,000
Gilbert F. Amelio						
Fred D. Anderson	100,000	0.51%	18.38	4/21/07	1,157,625	2,940,000
	500,000	2.55%	13.25	7/11/07	4,173,750	10,600,000
	250,000	1.27%	19.75	8/5/07	3,110,625	7,900,000
Guerrino De Luca(6)	200,000	1.02%	17.00	2/21/07	2,142,000	5,440,000
	309,750	1.58%	13.25	7/11/07	2,585,638	6,566,700
	190,250	0.97%	19.75	8/5/07	2,367,186	6,011,900
Robert Calderoni(6)	25,000	0.13%	17.00	2/21/07	267,750	680,000
	20,000	0.10%	18.38	4/21/07	231,525	588,000
	80,000	0.41%	19.75	8/5/07	995,400	2,528,000
Jonathan Rubinstein	200,000	1.02%	17.00	2/21/07	2,142,000	5,440,000
	200,000	1.02%	13.25	7/11/07	1,669,500	4,240,000
	300,000	1.53%	19.75	8/5/07	3,732,750	9,480,000
Ellen Hancock						

133. Finally, the 1998 Proxy stated that the “Company intends that options granted under the 1990 Plan and any payments made or stock issued under the Performance Share Plan be deductible by the Company under Section 162(m).” Section 162(m) generally limits a public company’s tax deductions for certain executive officers’ compensation to \$1 million unless the remuneration is “performance based.” To be “performance based” within the

1 meaning of the Code, stock options must be issued at an exercise price no less than the fair
 2 market value of the company's stock on the date of grant. Thus, a company's "at the money"
 3 stock option expenses are generally tax deductible even though an executive is paid more than
 4 \$1 million. The Company's statements of an intention to have options be deductible under
 5 Section 162(m) were false and misleading because certain options were backdated and, as a
 6 result, expense incurred with respect to such options could not have been properly deductible
 7 under Section 162(m).

8 3. 2000 Proxy

9 134. Apple's definitive proxy statement dated March 6, 2000 filed with the SEC on
 10 Form 14A for the annual meeting to be held April 20, 2000 (the "2000 Proxy") was materially
 11 false and misleading. (Defendants Jobs, Campbell and York were directors at this time and
 12 signed the 2000 Proxy; Heinen signed the cover letter that accompanied the proxy; Anderson
 13 was CFO at the time the proxy was disseminated and participated in its preparation and/or
 14 reviewed and/or commented upon it.)

15 135. With respect to shareholders of record as of February 22, 2000, the 2000 Proxy
 16 solicited shareholder votes to, among other things, approve an amendment to the 1998 Plan to
 17 increase the number of shares reserved for issuance thereunder by two million shares.

18 136. The 2000 Proxy stated:

19 **The Company's executive compensation program utilizes**
 20 **Company performance, individual performance and an increase in**
 21 **stockholder value over time as determinants of executive pay**
 22 **levels. These principles are intended to motivate executive**
 23 **officers to improve the financial position of the Company, to hold**
executives accountable for the performance of the organizations
for which they are responsible, to attract key executives into the
service of the Company and to create value for the Company's
shareholders.

24 137. This statement is misleading because it fails to disclose the instant paper profits
 25 being received by executives from backdating. An increase in stockholder value over time
 26 cannot be a determinant of executive pay levels where instant paper profits from stock options
 27 are built-in at the time of the award. Such profits may not motivate executives to improve the
 28 financial position of the Company because an executive does not necessarily need to work to

improve the financial position of the Company to gain from the award. Unlike for shareholders, profit from backdated stock option awards is built-in from the outset.

138. The 2000 Proxy stated that “[d]uring fiscal year 1999, all of the executive officers of the Company received new option grants under the 1998 Plan. The options granted under the 1998 Plan were at an exercise price equal to the fair market value of the Common Stock on the date of grant....” and, in a footnote to a chart depicting option grants during the fiscal year, “[a]ll options were granted at an exercise price equal to fair market value based on the closing market value of Common Stock on the Nasdaq National Market on the date of grant.” These statements are false and misleading because they fail to disclose the backdating scheme and that the exercise price in fact was not the fair market value of the Company’s common stock on the date of grant.

139. In addition, the Summary Compensation Table from the 2000 Proxy materially misstated the compensation of, and failed to disclose the illegal compensation received from the Company by, Anderson in fiscal years 1997 and 1999, Mandich and Rubinstein (and others) in fiscal years 1997 and 1999 and Cook in fiscal years 1998 and 1999 as a result of their receipt of backdated stock options at less than fair market value on the date of grant. The Summary Compensation Table is set forth below:

		ANNUAL COMPENSATION		LONG-TERM COMPENSATION		
				RESTRICTED	SECURITIES	
NAME AND PRINCIPAL POSITION	FISCAL YEAR	SALARY	BONUS	STOCK AWARDS	UNDERLYING OPTIONS	ALL OTHER COMPENSATION
		(\$)	(\$)	(\$)	(#)	(\$)
Steven P. Jobs	1999	1				
interim Chief Executive Officer*	1998	1				
	1997				30,000	

Fred D. Anderson	1999	605,260			475,000	29,700
Executive Vice President and Chief Financial Officer	1998	604,283			250,000	60,123
	1997	520,311		40,748	850,000	250,489
Timothy D. Cook	1999	401,940			300,000	29,519
Senior Vice President, Worldwide Operations	1998	223,953	500,000		700,000	90,849
Mitchell Mandich	1999	402,941			387,876	7,200
Senior Vice President, Worldwide Sales	1998	402,253			424,250	8,118
	1997	174,348	104,000		565,050	1,730
Jonathan Rubinstein	1999	402,200			458,334	5,888
Senior Vice President, Hardware Engineering	1998	402,095			300,000	4,804
	1997	250,262	100,000	19,108	700,000	1,864

140. Specifically, Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the “dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered ...” (17 C.F.R. § 229.402(b)(2)(iii)(B)). Additionally, the Instructions to Item 402(b)(2)(iii)(A) and (B) further provide that the following items be disclosed in the Summary Compensation Table:

- (i) For stock or any other form of non-cash compensation, disclose the fair market value at the time the compensation is awarded, earned or paid.
- (ii) Above-market or preferential earnings on restricted stock, options, SARs or deferred compensation paid during the fiscal year or payable during that period...
- (iii) The dollar value of the difference between the price paid by a named executive officer for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise), and the fair market value of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant.

(Id.) In addition, the disclosures in the Summary Compensation Table of “Annual Compensation” and “Securities Underlying Options” are materially misleading absent the disclosure of the additional compensation received as a result of the backdated options.

141. Further, the Option Grants in Last Fiscal Year table is materially misleading because it fails to include an additional column showing the market price on the date of the grant as required by Item 402(c)(2)(iv) even though options granted in fiscal year 1999 were backdated. The Option Grants in Last Fiscal Year table is set forth below:

		INDIVIDUAL GRANTS				
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR (1)	EXERCISE OR BASE PRICE (\$/SH)(2)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(3)	
					5% (\$)	10% (\$)
Steven P. Jobs						
Fred D. Anderson	475,000	7.98%	34.63	3/2/09	10,343,351	26,212,083
Timothy D. Cook	300,000	5.03%	34.63	3/2/09	6,532,643	16,555,000
Mitchell Mandich	387,876	6.51%	34.63	3/2/09	8,446,185	21,404,290
Jonathan Rubinstein	458,334	7.70%	34.63	3/2/09	9,980,441	25,292,398

142. Finally, the 2000 Proxy stated that the “Company intends that options granted under the Company’s stock option plans be deductible by the Company under Section 162(m).” Section 162(m) generally limits a public company’s tax deductions for certain executive officers’ compensation to \$1 million unless the remuneration is “performance based.” To be “performance based” within the meaning of the Code, stock options must be issued at an exercise price no less than the fair market value of the company’s stock on the date of grant. Thus, a company’s “at the money” stock option expenses are generally tax deductible even though an executive is paid more than \$1 million. The Company’s statements of an intention to have options be deductible under Section 162(m) were false and misleading because certain

options were backdated and, as a result, expense incurred with respect to such options could not have been properly deductible under Section 162(m).

4. 2001 Proxy

143. Apple's definitive proxy statement dated March 12, 2001 filed with the SEC on Form 14A for the annual meeting to be held April 19, 2001 (the "2001 Proxy") was materially false and misleading. (Defendants Jobs, Campbell, Drexler, Levinson and York were directors at this time and signed the 2001 Proxy; Heinen signed the cover letter that accompanied the proxy; Anderson was CFO at the time the proxy was disseminated and participated in its preparation and/or reviewed and/or commented upon it.)

144. With respect to shareholders of record as of February 21, 2001, the 2001 Proxy solicited shareholder votes to, among other things, approve an amendment to the 1998 Plan to increase the number of shares reserved for issuance thereunder by 5 million shares.

145. The 2001 Proxy stated:

The Company's executive compensation program focuses on Company performance, individual performance and increases in stockholder value over time as determinants of executive pay levels. These principles are intended to motivate executive officers to improve the financial position of the Company, to hold executives accountable for the performance of the organizations for which they are responsible, to attract key executives into the service of the Company and to create value for the Company's shareholders.

146. This statement is misleading because it fails to disclose the instant paper profits being received by executives from backdating. An increase in stockholder value over time cannot be a determinant of executive pay levels where instant paper profits from stock options are built-in at the time of the award. Such profits may not motivate executives to improve the financial position of the Company because an executive does not necessarily need to work to improve the financial position of the Company to gain from the award. Unlike for shareholders, profit from backdated stock option awards is built-in from the outset. The 2001 Proxy stated that "[d]uring fiscal year 2000, options were granted under the 1998 Plan to Messrs. Jobs [and] Johnson...and Ms. Heinen. The options granted under the 1998 Plan were at an exercise price equal to the fair market value of the Common Stock on the date of grant...."

1 and, in a footnote to a chart depicting option grants during the fiscal year, “[a]ll options were
2 granted at an exercise price equal to fair market value based on the closing market value of
3 Common Stock on the Nasdaq National Market on the date of grant.” These statements are false
4 and misleading because they mislead investors regarding the actual compensation practices at
5 Apple, and because the exercise prices, in fact, were *not* the fair market value of the Company’s
6 common stock on the trading day immediately preceding the date of grant.

7 147. The 2001 Proxy stated that Jobs received a grant of 10 million (not split-
8 adjusted) options in January 2000 “at an exercise price equal to the fair market value based on
9 the closing market value of Common Stock on the Nasdaq National market on the date of
10 grant.” The 2001 Proxy further disclosed that the grant date was January 12, 2000, a date when
11 Apple’s stock price closed at \$43.5938 and, therefore, the exercise price assigned to the award
12 was \$43.5938. These statements were false.

13 148. As Apple has admitted, this grant was not memorialized until six days after
14 January 12, 2000. During that time, Apple’s stock price ran up from \$43.5938 to \$51.97 - a
15 jump of almost 20%. Only then (on January 18, 2000) was board action taken to memorialize
16 the grant. Thus, the exercise price assigned to the option grant should have been the January 18
17 Apple closing price of \$51.97 rather than the \$43.5938 that was falsely disclosed in the 2001
18 Proxy. The net result is that CEO Jobs was given an “instant paper profit” in the amount of
19 \$83,762,000 (*i.e.*, \$51.97 minus \$43.5938 multiplied times 10 million shares) that was never
20 disclosed to shareholders.

21 149. In addition, the Summary Compensation Table from the 2001 Proxy materially
22 misstated the compensation of, and failed to disclose the illegal compensation received from
23 the Company by, Jobs in fiscal year 2000, Anderson in fiscal year 1999, Johnson in fiscal year
24 2000 and Mandich and Rubinstein in fiscal year 1999 as a result of their receipt of backdated
25 stock options at less than fair market value. The Summary Compensation Table is set forth
26 below:

		ANNUAL COMPENSATION		LONG-TERM COMPENSATION	
				SECURITIES	
NAME AND PRINCIPAL POSITION	FISCAL YEAR	SALARY	BONUS	UNDERLYING OPTIONS	ALL OTHER COMPENSATION
		(\$)	(\$)	(#)	(\$)
Steven P. Jobs	2000	1	90,000,000	20,000,000	
Chief Executive Officer	1999	1			
	1998	1			
Fred D. Anderson	2000	660,414			6,750
Executive Vice President and Chief Financial Officer	1999	605,260		950,000	29,700
	1998	604,283		500,000	60,123
Ronald B. Johnson	2000	328,719	500,000	1,200,000	111,444
Senior Vice President, New Business Development	1999				
	1998				
Mitchell Mandich	2000	453,444			7,650
Senior Vice President, Worldwide Sales	1999	402,941		775,752	7,200
	1998	402,253		916,668	8,118
Jonathan Rubinstein	2000	451,949			6,577
Senior Vice President, Hardware Engineering	1999	402,200		458,334	5,888
	1998	402,095		600,000	4,804

150. Specifically, Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the “dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered ...” (17 C.F.R. §

229.402(b)(2)(iii)(B)) Additionally, the Instructions to Item 402(b)(2)(iii)(A) and (B) further provide that the following items be disclosed in the Summary Compensation Table:

- (i) For stock or any other form of non-cash compensation, disclose the fair market value at the time the compensation is awarded, earned or paid.
- (ii) Above-market or preferential earnings on restricted stock, options, SARs or deferred compensation paid during the fiscal year or payable during that period...
- (iii) The dollar value of the difference between the price paid by a named executive officer for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise), and the fair market value of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant.

(*Id.*) In addition, the disclosures in the Summary Compensation Table of “Annual Compensation” and “Securities Underlying Options” are materially misleading because they omit the additional compensation received as a result of the backdated options.

151. Further, the Option Grants in Last Fiscal Year Table is materially misleading because it fails to include an additional column showing the market price on the date of the grant as required by Item 402(c)(2)(iv) even though options granted in fiscal year 2000 were backdated. The Option Grants in Last Fiscal Year Table is set forth below:

		INDIVIDUAL GRANTS			POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(3)	
	NUMBER OF SECURITIES	PERCENT OF TOTAL				
	UNDERLYING OPTIONS	OPTIONS GRANTED	EXERCISE OR			
	GRANTED	TO EMPLOYEES IN	BASE PRICE			
NAME	(#)	FISCAL YEAR (1)	(\$/SH)(2)	DATE	5% (\$)	10% (\$)
Steven P. Jobs	20,000,000	43.80%	43.59	1/12/10	548,317,503	1,389,544,207
Fred D. Anderson						
Ronald B. Johnson	1,200,000	2.63%	47.44	12/14/09	35,799,827	90,723,790
Mitchell Mandich(4)						
Jonathan Rubinstein						

(1) Based on an aggregate of 45,662,484 options granted to all employees during fiscal year 2000. Options granted in fiscal year 2000, including those granted to Mr. Johnson, typically vest in four equal annual

installments commencing on the first anniversary of the date of grant. Of the options granted to Mr. Jobs, 10 million options were immediately vested and exercisable on the date of grant; 5 million vested in July 2000; and the remaining 5 million will vest in July 2001.

(2) All options were granted at an exercise price equal to the fair market value based on the closing market value of Common Stock on the Nasdaq National Market on the date of grant.

(3) Potential gains are net of exercise price, but before taxes associated with exercise. These amounts represent certain assumed rates of appreciation only, based on SEC rules, and do not represent the Company's estimate or projection of the price of the Company's stock in the future. **Actual gains, if any, on stock option exercises depend upon the actual future price of Common Stock and the continued employment of the option holders throughout the vesting period.** Accordingly, the potential realizable values set forth in this table may not be achieved.

(4) Mr. Mandich resigned from his position of Senior Vice President, Worldwide Sales on October 9, 2000.

152. The 2001 Proxy stated, in the footnotes to the chart above depicting option grants during the fiscal year, that "[a]ll options were granted at an exercise price equal to fair market value based on the closing market value of Common Stock on the Nasdaq National Market on the business day immediately preceding the date of grant." These statements are false and misleading because they mislead investors regarding the actual compensation practices at Apple, and because the exercise prices, in fact, were *not* the fair market value of the Company's common stock on the trading day immediately preceding the date of grant.

153. Finally, the 2001 Proxy stated that the "Company intends that options granted under the Company's stock option plans be deductible by the Company under Section 162(m)." Section 162(m) generally limits a public company's tax deductions for certain executive officers' compensation to \$1 million unless the remuneration is "performance based." To be "performance based" within the meaning of the Code, stock options must be issued at an exercise price no less than the fair market value of the company's stock on the date of grant. Thus, a company's "at the money" stock option expenses are generally tax deductible even though an executive is paid more than \$1 million. The Company's statements of an intention to have options be deductible under Section 162(m) were false and misleading because certain options were backdated and, as a result, expense incurred with respect to such options could not have been properly deductible under Section 162(m).

1 **5. 2002 Proxy**

2 154. Apple's definitive proxy statement dated March 21, 2002 filed with the SEC on
3 Form 14A for the annual meeting to be held April 24, 2002 (the "2002 Proxy") was materially
4 false and misleading. (Defendants Jobs, Campbell, Drexler, York, and Levinson were directors
5 at this time and signed the 2002 Proxy; Heinen signed the cover letter that accompanied the
6 proxy; Anderson was CFO at the time the proxy was disseminated and participated in its
7 preparation and/or reviewed and/or commented upon it.)

8 155. With respect to shareholders of record as of March 1, 2002, the 2002 Proxy
9 solicited shareholder votes to, among other things, approve an amendment to the 1998 Plan to
10 increase the number of shares reserved for issuance thereunder by 5 million shares.

11 156. The 2002 Proxy stated:

12 **The Company's executive compensation program focuses on**
13 **Company performance, individual performance and increases in**
14 **stockholder value over time as determinants of executive pay**
15 **levels. These principles are intended to motivate executive**
16 **officers to improve the financial position of the Company, to hold**
 executives accountable for the performance of the organizations
 for which they are responsible, to attract key executives into the
 service of the Company and **to create value for the Company's**
 shareholders.

17 157. This statement is misleading because it fails to disclose the instant paper profits
18 being received by executives from backdating. An increase in stockholder value over time
19 cannot be a determinant of executive pay levels where instant paper profits from stock options
20 are built-in at the time of the award. Such profits may not motivate executives to improve the
21 financial position of the Company because an executive does not necessarily need to work to
22 improve the financial position of the Company to gain from the award. Unlike for
23 shareholders, profit from backdated stock option awards is built-in from the outset.

24 158. The 2002 Proxy stated that "[d]uring fiscal year 2001, all of the Company's
25 executive officers, excluding Mr. Jobs, received stock option grants under the 1998 Plan....
26 The options granted under the 1998 Plan were at an exercise price equal to the fair market
27 value of the Common Stock on the date of grant...." and, in a footnote to a chart depicting
28 option grants during the fiscal year, "[a]ll options were granted at an exercise price equal to the

1 fair market value based on the closing market value of Common Stock on the Nasdaq National
2 Market on the date of grant.” These statements are false and misleading because they mislead
3 investors regarding the actual compensation practices at Apple, and because the exercise prices,
4 in fact, were *not* the fair market value of the Company’s common stock on the trading day
5 immediately preceding the date of grant.

6 159. The 2002 Proxy disclosed that:

7 **in October 2001** the Compensation Committee recommended and
8 **the Board approved** granting Mr. Jobs options to purchase
9 7,500,000 shares...in order to provide him with an incentive to
10 continue to serve as the Company’s CEO and maximize
shareholder value. The options were granted at an exercise price
of \$18.30, which is equal to the fair market value...on the date of
grant.

11 160. Apple has now admitted that this statement was false because such a Board
12 meeting did not occur. The true grant date was December 18, 2001 which means the assigned
13 exercise price should have been \$21.01 -- Apple’s December 18 closing price representing the
14 fair market value of Apple’s shares on the true date of grant. The net result of the pretense that
15 the grant of these options was approved at an October 2001 board meeting is CEO Jobs was
16 given an “instant paper profit” in the amount of \$20,325,000 (*i.e.*, \$21.01 minus \$18.30
17 multiplied times 7.5 million shares) that was never disclosed to shareholders.

18 161. In addition, the Summary Compensation Table from the 2002 Proxy materially
19 misstated the compensation of, and failed to disclose the illegal compensation received from
20 the Company by, Jobs in fiscal year 2000, Anderson, Cook and Rubinstein in fiscal years 1999
21 and 2001 and Tevanian in fiscal year 2001 as a result of their receipt of backdated stock options
22 at less than fair market value on the date of grant. The Summary Compensation Table is set
23 forth below:

SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Annual Compensation				Long-Term Compensation		
		Salary (\$)		Bonus (\$)		Securities Underlying Options* (#)		All Other Compensation (\$)
Steven P. Jobs Chief Executive Officer	2001 2000 1999	1 1 1		43,511,534 ⁽¹⁾ — —		(2) 20,000,000 —		40,484,594 ⁽¹⁾ — —
Fred D. Anderson Executive Vice President and Chief Financial Officer	2001 2000 1999	657,039 660,414 605,260		— — —		1,000,000 — 950,000		7,312 ⁽³⁾ 6,750 ⁽³⁾ 29,700 ⁽⁴⁾
Timothy D. Cook Executive Vice President, Worldwide Sales and Operations	2001 2000 1999	452,219 451,673 401,940		500,000 ⁽⁵⁾ — —		1,000,000 — 600,000		7,875 ⁽³⁾ 6,352 ⁽³⁾ 29,519 ⁽⁶⁾
Jonathan Rubinstein Senior Vice President, Hardware Engineering	2001 2000 1999	469,737 451,949 402,200		— — —		1,000,000 — 916,668		7,875 ⁽³⁾ 6,577 ⁽³⁾ 5,888 ⁽⁷⁾
Avadis Tevanian, Jr. Ph.D Senior Vice President, Software Engineering	2001 2000 1999	460,873 451,673 401,939		500 ⁽⁸⁾ — —		1,000,000 — 1,019,580		10,200 ⁽³⁾ 10,200 ⁽³⁾ 9,600 ⁽³⁾

(1) In December 1999, Mr. Jobs was given a special executive bonus for serving as the Company's interim Chief Executive Officer for past services, in the form of an aircraft with a total cost to the Company of approximately \$90,000,000. This amount was previously reported as a bonus for fiscal year 2000 in the Company's 2000 Form 10-K and 2000 Proxy Statement. Because the aircraft was transferred to Mr. Jobs in 2001, the amount of approximately \$43.5 million paid by the Company during fiscal year 2001 towards the purchase of the plane and related tax assistance of approximately \$40.5 million was reported as income to Mr. Jobs. Accordingly, the \$90 million previously reported as a bonus in 2000 has been removed from the table above, and the amount reported as taxable income by Mr. Jobs related to the aircraft during fiscal year 2001 is reported as compensation.

(2) Subsequent to fiscal year 2001, in October 2001 the Board granted Mr. Jobs options to purchase 7,500,000 shares of Common Stock under the 1998 Plan at an exercise price per share of \$18.30, which equaled the fair market value based on the closing market value of Common Stock on the date of grant. 25% of the options were vested as of the date of grant and the remainder vest in three equal annual installments commencing on the first anniversary of the date of grant.

(3) Consists of matching contributions made by the Company in accordance with the terms of the 401(k) plan.

(4) Consists of \$22,500 in relocation assistance and \$7,200 in matching contributions made by the Company in accordance with the terms of the 401(k) plan.

(5) A special executive bonus was given to Mr. Cook for accepting the position of Senior Vice President, Worldwide Sales Service & Support in addition to holding the position of Senior Vice President, Operations. In January 2002, Mr. Cook was named Executive Vice President, Worldwide Sales and Operations.

(6) Consists of \$24,719 in relocation assistance and \$4,800 in matching contributions made by the Company in accordance with the terms of the 401(k) plan.

(7) Includes \$3,465 from the disqualifying disposition of shares of Company stock acquired through the Company's Employee Stock Purchase Plan and \$2,423 in matching contributions made by the Company in accordance with the terms of the 401(k) plan.

(8) Patent award.

The foregoing statements were false and misleading because Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the "dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered . . ." (17 C.F.R. § 229.402(b)(2)(iii)(B)), and Apple failed to include the non-cash compensation attributable to backdated options. Additionally, the Instructions to Item 402(b)(2)(iii)(A) and (B) further provide that the following items be disclosed in the Summary Compensation Table:

- (i) For stock or any other form of non-cash compensation, disclose the fair market value at the time the compensation is awarded, earned or paid.
- (ii) Above-market or preferential earnings on restricted stock, options, SARs or deferred compensation paid during the fiscal year or payable during that period...
- (iii) The dollar value of the difference between the price paid by a named executive officer for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise), and the fair market value of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant.

(*Id.*) In addition, the disclosures in the Summary Compensation Table of "Annual Compensation" and "Securities Underlying Options" are materially misleading because they omit the additional compensation received as a result of the backdated options. Footnote 2 of the summary table failed to disclose that the 7.5 million options awarded to Defendant Jobs in October 2001 were backdated. These statements demonstrate that Apple management was

1 willing to and did materially mislead the investing public in order to enhance their own
2 compensation.

3 162. The Option Grants in Last Fiscal Year Table is set forth below:

OPTION GRANTS IN LAST FISCAL YEAR

Name	Individual Grants								
	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year(1)	Exercise or Base Price (\$/Sh)(2)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(3)	5% (\$)	10% (\$)		
Steven P. Jobs	(4)	—	—	—	—	—	—		
Fred D. Anderson	1,000,000	2.87%	\$ 16.8125	1/17/11	\$ 10,573,291	\$	26,794,795		
Timothy D. Cook	1,000,000	2.87%	\$ 16.8125	1/17/11	\$ 10,573,291	\$	26,794,795		
Jonathan Rubinstein	1,000,000	2.87%	\$ 16.8125	1/17/11	\$ 10,573,291	\$	26,794,795		
Avadis Tevanian, Jr.	1,000,000	2.87%	\$ 16.8125	1/17/11	\$ 10,573,291	\$	26,794,795		

19 (1)Based on an aggregate of 34,874,440 options granted to all employees during fiscal year 2001. Options granted
20 in fiscal year 2001 typically vest over four years in sixteen equal quarterly increments. Options granted to
executive officers, including those granted to the Named Executive Officers, typically vest in four equal annual
installments commencing on the first anniversary of the date of grant.

21 (2)All options were granted at an exercise price equal to the fair market value based on the closing market value
22 of Common Stock on the Nasdaq National Market on the date of grant.

23 (3)Potential gains are net of exercise price, but before taxes associated with exercise. These amounts represent
24 certain assumed rates of appreciation only, based on SEC rules, and do not represent the Company's estimate or
25 projection of the price of the Company's stock in the future. Actual gains, if any, on stock option exercises depend
upon the actual future price of Common Stock and the continued employment of the option holders throughout the
vesting period. Accordingly, the potential realizable values set forth in this table may not be achieved.

26 (4)Subsequent to fiscal year 2001, in October 2001 the Board granted Mr. Jobs options to purchase
27 7,500,000 shares of Common Stock under the 1998 Plan at an exercise price per share of \$18.30, which
28 equaled the fair market value based on the closing market value of Common Stock on the date of grant.
25% of the options were vested as of the date of grant and the remainder vest in three equal annual
installments commencing on the first anniversary of the date of grant. The options expire in October 2011.

1 163. The Option Grants in Last Fiscal Year Table is materially misleading because it
2 fails to include an additional column showing the market price on the date of the grant as
3 required by Item 402(c)(2)(iv) even though options granted in fiscal year 2001 were backdated.
4 The footnotes to the chart depicted above falsely state that “[a]ll options were granted at an
5 exercise price equal to fair market value based on the closing market value of Common Stock
6 on the Nasdaq National Market on the business day immediately preceding the date of grant”
7 and that actual gains depend upon the actual future price of the Common Stock. These
8 statements are false and misleading because they mislead investors regarding the actual
9 compensation practices at Apple, and because the exercise prices, in fact, were *not* the fair
10 market value of the Company’s common stock on the trading day immediately preceding the
11 date of grant.

12 164. Finally, the 2002 Proxy stated that the “Company intends that options granted
13 under the Company’s stock option plans be deductible by the Company under Section 162(m).”
14 Section 162(m) generally limits a public company’s tax deductions for certain executive
15 officers’ compensation to \$1 million unless the remuneration is “performance based.” To be
16 “performance based” within the meaning of the Code, stock options must be issued at an
17 exercise price no less than the fair market value of the company’s stock on the date of grant.
18 Thus, a company’s “at the money” stock option expenses are generally tax deductible even
19 though an executive is paid more than \$1 million. The Company’s statements of an intention to
20 have options be deductible under Section 162(m) were false and misleading because certain
21 options were backdated and, as a result, expense incurred with respect to such options could not
22 have been properly deductible under Section 162(m).

23 **6. 2003 Proxy**

24 165. Apple’s definitive statement dated March 24, 2003 filed with the SEC on Form
25 14A for the annual meeting to be held April 24, 2003 (the “2003 Proxy”) was materially false
26 and misleading. (Defendants Jobs, Campbell, Drexler, York, and Levinson were directors at
27 the time and signed the 2003 Proxy; Heinen signed the cover letter that accompanied the proxy;
28 Anderson was CFO at the time the proxy was disseminated and participated in its preparation

and/or reviewed and/or commented upon it.) With respect to shareholders of record as of March 4, 2003, the 2003 Proxy solicited shareholder votes to, among other things: (a) “approve an amendment to the 1998 Executive Officer Stock Plan to allow broad-based grants to all employees”; and (b) “approve an amendment to the [ESPP] to increase the number of shares of Common Stock reserved for issuance thereunder by 4 [million] shares.”

166. The 2003 Proxy stated:

The goal of the [Compensation] Committee is to align compensation with Company performance....

* * *

The Committee believes that a substantial portion of an executive officer’s compensation **should be closely aligned with Company performance.**

* * *

The Committee believes that the granting of stock options is an important method of rewarding and motivating employees **by aligning the interests of the employee with those of the shareholders. Stock options have value for an employee only if the Company’s stock price increases above the exercise price of the option** and the employee remains employed by the Company for the duration of the vesting period.

167. These statements are false and misleading because they fail to disclose the instant paper profits being received by executives from backdating. Contrary to the statement above, backdated stock options that are “in the money” from the outset do have immediate value for an employee; no increases of the Company’s stock price are necessary. Such instant paper profits do not align executive and shareholder interests because only the executive receiving the backdated option, not the shareholder who purchased in the open market at fair market value, has received a built-in paper profit from the outset. These statements demonstrate that Apple management was willing to and did materially mislead the investing public in order to enhance their own compensation.

168. The 2003 Proxy stated that “[i]n fiscal year 2002...[t]he Committee made stock option grants to...Mr. Jobs...in connection with [a] performance evaluation[,]” “[t]he options granted under the 1998 Plan were at an exercise price equal to the fair market value of the

Common Stock on the date of grant....” and, in a footnote to a chart depicting the option grant to Jobs during the fiscal year, “[a]ll options were granted at an exercise price equal to the fair market value based on the closing market value of Common Stock on the Nasdaq National Market on the date of grant.” These statements are false and misleading because they mislead investors regarding the actual compensation practices at Apple, and because the exercise prices, in fact, were *not* the fair market value of the Company’s common stock on the trading day immediately preceding the date of grant.

169. As with the 2002 Proxy, the 2003 Proxy falsely stated:

in October 2001 the Compensation Committee recommended and **the Board approved**, granting Mr. Jobs options to purchase 7,500,000 [not split-adjusted] shares...in order to provide him with an incentive to continue to serve as the Company’s CEO and maximize shareholder value. The options were granted at an exercise price of \$18.30, which was equal to the fair market value of the common stock on the date of grant.

170. Apple has admitted that this statement was false because such a Board meeting did not occur. The true grant date was December 18, 2001 which means the assigned exercise price should have been \$21.01 -- Apple’s December 18 closing price representing the fair market value of Apple’s shares on the true date of grant. The net result of the pretense that the grant of these options was approved at an October 2001 board meeting is CEO Jobs was given an “instant paper profit” in the amount of \$20,325,000 (*i.e.*, \$21.01 minus \$18.30 multiplied times 7.5 million shares) that was never disclosed to shareholders.

171. Unlike the 2002 Proxy, however, the 2003 Proxy goes on to state:

In March 2003, Mr. Jobs voluntarily cancelled all of his outstanding options, excluding those granted to him in his capacity as a director....In keeping with its philosophy to relate compensation to building shareholder value, **in exchange for his cancelled options**, the Board approved a new retention and incentive program in the form of long-term equity compensation consisting of five million [not adjusted for stock splits] restricted shares of the Company’s Common Stock which generally vest in full on the third anniversary of the grant date.

172. This statement is misleading because it fails to disclose that the five million restricted shares (now ten million after adjustments for stock splits) were received by Jobs in exchange for the backdated stock options discussed earlier herein. It is estimated that as the

1 result of the \$104,087,000 in “instant paper profits” Jobs received from backdated options, he
 2 received at least an additional 630,000 shares of restricted stock that he would not have
 3 received had the cancelled options not been backdated. At prices prevailing in or about the
 4 date of the 2003 Proxy, these extra 630,000 shares had a value in excess of \$50 million. The
 5 2003 Proxy also fails to disclose these facts.

6 173. In addition, the Summary Compensation Table from the 2003 Proxy materially
 7 misstated the compensation of, and failed to disclose the illegal compensation received from
 8 the Company by, Jobs in fiscal years 2000 and 2002 and Anderson, Cook, Rubinstein and
 9 Tevanian in fiscal year 2001 as a result of their receipt of backdated stock options at less than
 10 fair market value on the date of grant. The Summary Compensation Table is set forth below:

SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Annual Compensation				Long-Term Compensation		All Other Compensation (\$)
		Salary (\$)		Bonus (\$)		Securities Underlying Options* (#)		
Steven P. Jobs Chief Executive Officer	2002	1		2,268,698(1)		7,500,000(2)		1,302,795(1)
	2001	1		43,511,534(1)		—		40,484,594(1)
	2000	1				20,000,000		—
Fred D. Anderson Executive Vice President and Chief Financial Officer	2002	656,631		—		—		11,000(3)
	2001	657,039		—		1,000,000		7,312(3)
	2000	660,414		—		—		6,750(3)
Timothy D. Cook Executive Vice President, Worldwide Sales and Operations	2002	563,829		—		—		8,025(3)
	2001	452,219		500,000(4)		1,000,000		7,875(3)
	2000	451,673		—		—		6,352(3)

Jonathan Rubinstein	2002	452,588	—	—	—	9,996(3)
Senior Vice President,	2001	469,737	—	—	1,000,000	7,875(3)
Hardware Engineering	2000	451,949	—	—	—	6,577(3)
Avadis Tevanian, Jr.	2002	492,212	—	—	—	10,700(3)
Ph.D	2001	460,873	500(5)	—	1,000,000	10,200(3)
Senior Vice President,	2000	451,673	—	—	—	10,200(3)
Software Engineering						

(1) In December 1999, Mr. Jobs was given a special executive bonus for serving as the Company's interim Chief Executive Officer for past services, in the form of an aircraft with a total cost to the Company of approximately \$90,000,000. This amount was previously reported as a bonus for fiscal year 2000 in the Company's 2000 Form 10-K and 2000 Proxy Statement. Because the aircraft was transferred to Mr. Jobs in 2001, the amount of approximately \$43.5 million paid by the Company during fiscal year 2001 towards the purchase of the plane and the related tax assistance of approximately \$40.5 million was reported as income to Mr. Jobs. In fiscal 2002, approximately \$2.27 million paid by the Company towards the purchase of the plane and approximately \$1.3 million in related tax assistance was reported as income to Mr. Jobs. Accordingly, the \$90 million previously reported as a bonus in 2000 has been removed from the table above, and the amounts reported as taxable income by Mr. Jobs related to the aircraft during each of fiscal 2001 and 2002 is reported as compensation.

(2) In March 2003, Mr. Jobs voluntarily cancelled all of his outstanding options, excluding those granted to him in his capacity as a director. In addition, in March 2003, the Board awarded Mr. Jobs five million restricted shares of the Company's Common Stock which generally vest in full on the third anniversary of the grant date.

(3) Consists of matching contributions made by the Company in accordance with the terms of the 401(k) plan.

(4) A special executive bonus was given to Mr. Cook for accepting the position of Senior Vice President, Worldwide Sales Service & Support in addition to holding the position of Senior Vice President Operations. In January 2002, Mr. Cook was named Executive Vice President, Worldwide Sales and Operations.

(5) Patent award.

174. The foregoing statements were false and misleading because Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the "dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered . . ." (17 C.F.R. § 229.402(b)(2)(iii)(B).), and Apple failed to include the non-cash compensation attributable to backdated options. Additionally, the Instructions to Item 402(b)(2)(iii)(A) and (B) further provide that the following items be disclosed in the Summary Compensation Table:

- (i) For stock or any other form of non-cash compensation, disclose the fair market value at the time the compensation is awarded, earned or paid.

- (ii) Above-market or preferential earnings on restricted stock, options, SARs or deferred compensation paid during the fiscal year or payable during that period...
- (iii) The dollar value of the difference between the price paid by a named executive officer for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise), and the fair market value of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant.

(*Id.*) In addition, the disclosures in the Summary Compensation Table of “Annual Compensation” and “Securities Underlying Options” are materially misleading because they omit the additional compensation received as a result of the backdated options. With respect to Defendant Jobs, the footnotes to the Summary Compensation Table, in describing the exchange of options to restricted stock, fail to disclose that the options awarded to Jobs were inflated in value due to backdating.

175. The Option Grants in Last Fiscal Year Table is set forth below:

OPTION GRANTS IN LAST FISCAL YEAR

Name	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year (1)	Exercise or Base Price (\$/Sh)(2)	Expiration Date		Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(3)	
						5% (\$)	10% (\$)
Steven P. Jobs	7,500,000	32.27%	18.30	10/19/11	\$	86,315,788	\$ 218,741,153
Fred D. Anderson	—	—	—	—		—	—
Timothy D. Cook	—	—	—	—		—	—
Jonathan Rubinstein	—	—	—	—		—	—
Avadis Tevanian, Jr.	—	—	—	—		—	—

(1)Based on an aggregate of 23,239,444 options granted to all employees during fiscal year 2002. Options granted in fiscal year 2002 typically vest over four years in sixteen equal quarterly increments. Options granted to executive officers including those granted to the Named Executive Officers typically vest in four equal annual installments commencing on the first anniversary of the date of grant. Of the options granted to Mr. Jobs, 25% were vested as of the date of grant and the remainder vest in three equal annual installments commencing on the first anniversary of the date of grant. Mr. Jobs voluntarily cancelled this option grant in March 2003.

(2)All options were granted at an exercise price equal to the fair market value based on the closing market value of Common Stock on the Nasdaq National Market on the date of grant.

(3)Potential gains are net of exercise price, but before taxes associated with exercise. These amounts represent certain assumed rates of appreciation only, based on SEC rules, and do not represent the Company's estimate or projection of the price of the Company's stock in the future. Actual gains, if any, on stock option exercises depend upon the actual future price of Common Stock and the continued employment of the option holders throughout the vesting period. Accordingly, the potential realizable values set forth in this table may not be achieved.

176. The Option Grants in Last Fiscal Year Table is materially misleading because it fails to include an additional column showing the market price on the date of the grant as required by Item 402(c)(2)(iv) even though options granted in fiscal year 2002 were backdated. The footnotes to the chart depicted above falsely state that "[a]ll options were granted at an exercise price equal to fair market value based on the closing market value of Common Stock on the Nasdaq National Market on the business day immediately preceding the date of grant" and that actual gains depend upon the actual future price of the Common Stock. These statements are false and misleading because they mislead investors regarding the actual compensation practices at Apple, and because the exercise prices, in fact, were *not* the fair market value of the Company's common stock on the trading day immediately preceding the date of grant.

7. The 2004 Proxy

177. Apple's definitive proxy statement dated March 11, 2004 filed with the SEC on Form 14A for the annual meeting to be held on April 22, 2004 (the "2004 Proxy") was materially false and misleading. (Defendants Jobs, Campbell, Drexler, York and Levinson were directors at the time and signed the 2004 Proxy; Heinen signed the cover letter that accompanied the 2004 Proxy; Anderson was CFO at the time the proxy was disseminated and participated in its preparation and/or reviewed and/or commented upon it.)

178. The 2004 Proxy stated:

The Committee believes that the granting of stock options and/or restricted stock is an important method of rewarding and motivating employees by aligning the interests of the employee with those of the shareholders. **Stock options have value for an employee only if the Company's stock price increases above the exercise price of the option and the employee remains employed by the Company for the duration of the vesting period.** Restricted stock provides significant retentive value and incentive to manage the Company from the perspective of a shareholder with an equity stake in the business. Both stock options and restricted stock provide an opportunity to attract, motivate and retain high quality employees and executive officers while promoting the success of the Company's business.

179. The foregoing statements were false and misleading because they fail to disclose the instant paper profits being received by executives from backdating. Contrary to the statement above, backdated stock options that are "in the money" from the outset do have immediate value for an employee; no increases of the Company's stock price are necessary. Such instant paper profits do not align executive and shareholder interests because only the executive receiving the backdated option, not the shareholder who purchased in the open market at fair market value, has received a built-in paper profit from the outset. These statements demonstrate that Apple management was willing to and did materially mislead the investing public in order to enhance their own compensation.

180. The 2004 Proxy stated that "[i]n March 2003, Mr. Jobs voluntarily cancelled all of his outstanding options, excluding those granted to him in his capacity as a director. In March 2003, the Board awarded Mr. Jobs five million restricted shares of the Company's Common Stock that generally vest on the third anniversary of the grant date."

181. This statement is misleading because it fails to disclose that the restricted shares were received by Jobs in exchange for the backdated stock options discussed earlier herein. It is estimated that as the result of the \$104,087,000 in "instant paper profits" Jobs received from backdated options, he received at least an additional 630,000 shares of restricted stock that he would not have received had the cancelled options not been backdated. At prices prevailing in

1 or about the date of the 2003 Proxy, these extra 630,000 shares had a value in excess of \$50
2 million. The 2005 Proxy also fails to disclose these facts.

3 8. 2005 Proxy

4 182. Apple's definitive proxy statement dated March 14, 2005 filed with the SEC on
5 Form 14A for the annual meeting to be held April 21, 2005 (the "2005 Proxy") was materially
6 false and misleading. (Defendants Jobs, Anderson, Campbell, Derxler, York and Levinson
7 were directors at the time and signed the 2005 Proxy; Heinen signed the cover letter that
8 accompanied the proxy.)

9 183. With respect to shareholders of record as of March 1, 2005, the 2005 Proxy
10 solicited shareholder votes to, among other things: (a) increase the aggregate shares available
11 for the ESPP by 2 million up to a total of 70 million shares; and (b) increase the aggregate
12 shares available for the 2003 ESOP by 49 million.

13 184. The 2005 Proxy stated:

14 The [Compensation] Committee's compensation philosophy
15 is...that any long-term incentive compensation **should be closely**
16 **aligned with shareholder interests.** For executive officers, the
17 Committee believes that a substantial portion of their
18 compensation **should be closely aligned with Company**
19 **performance.**

20 * * *

21 The Committee believes that the granting of long-term incentives,
22 typically grants of stock options, is an important method of
23 rewarding and motivating employees **by aligning the interests of**
24 **the employee with those of the shareholders. Stock options**
25 **have value for an employee only if the Company's stock price**
26 **increases above the exercise price of the option** and the
27 employee remains employed by the Company for the remainder of
28 the vesting period.

23 185. These statements are false and misleading because they fail to disclose the
24 instant paper profits being received by executives from backdating. Contrary to the statement
25 above, backdated stock options that are "in the money" from the outset do have immediate
26 value for an employee; no increases of the Company's stock price are necessary. Such instant
27 paper profits do not align executive and shareholder interests because only the executive
28 receiving the backdated option, not the shareholder who purchased in the open market at fair

1 market value, has received a built-in paper profit from the outset. These statements
2 demonstrate that Apple management was willing to and did materially mislead the investing
3 public in order to enhance their own compensation.

4 186. The 2005 Proxy stated that “Mr. Jobs has ten million [split-adjusted] shares of
5 restricted stock that were granted to him in 2003 which generally vest in full on the third
6 anniversary of the grant date” and that “[i]n March 2003, Mr. Jobs voluntarily cancelled all of
7 his outstanding options, excluding those granted to him in his capacity as a director. In March
8 2003, the Board awarded Mr. Jobs 10 million [split-adjusted] restricted shares of the
9 Company’s Common Stock that generally vest on the third anniversary of the grant date.”

10 187. This statement is misleading because it fails to disclose that the ten million
11 restricted shares were received by Jobs in exchange for the backdated stock options discussed
12 earlier herein. It is estimated that as the result of the \$104,087,000 in “instant paper profits”
13 Jobs received from backdated options, he received at least an additional 630,000 shares of
14 restricted stock that he would not have received had the cancelled options not been backdated.
15 At prices prevailing in or about the date of the 2003 Proxy, these extra 630,000 shares had a
16 value in excess of \$50 million. The 2005 Proxy also fails to disclose these facts.

17 188. The 2005 Proxy also provided additional disclosures about the Company’s
18 compensation practices. Specifically, it noted the number of options that were outstanding
19 from prior stock option plans, and the fact that the Compensation Committee hired a consultant
20 to examine compensation trends, reviewed each executive’s past performance in light of those
21 trends, and on that basis increased the executives’ base pay and adopted a cash bonus program
22 upon which they asked shareholders to vote in the 2005 Proxy. The 2005 Proxy states: “The
23 Committee’s outside compensation consultant concluded that the infrequent grant of
24 options...did not make up for the below market median total cash compensation paid to
25 executive officers.”

26 189. This representation that Apple employees were paid “below market median total
27 cash compensation” was materially misleading. Certainly executives part with less cash when
28 exercising backdated stock options than they would have if the exercise price had been

1 determined on the actual date of grant instead of retrospectively cherry-picked based on
2 historical stock price dips.

3 190. The 2005 Proxy further stated that based upon a review of audited financial
4 statements by the Audit Committee and discussion with the Company's auditors, "the Audit
5 Committee recommended to the Board of Directors that the [audited] financial statements
6 [reviewed with the Company's accountants] be included in the Company's Annual Report on
7 Form 10-K for the fiscal year ended September 24, 2004." This statement was misleading
8 because, as the Company has admitted, these financial statements were materially inaccurate
9 and should not be relied upon.

10 **B. ANNUAL REPORTS**

11 191. Prior to and during the Class Period, Apple published numerous false and
12 misleading statements in its annual reports which were relied upon by Class Members and
13 which cause Apple's stock price to be materially inflated.

14 192. From 1996 to 2005, the Company, with the knowledge, approval, participation
15 or reckless disregard of each individual defendant (with respect to those disclosures made at a
16 time when such defendant was an officer and/or director of the Company), disseminated to
17 shareholders and filed with the SEC annual reports on Form 10-K and/or Form 10-K405 that
18 contained material misstatements and omissions falling into five general categories: (a)
19 misstatements that options granted were priced at the fair market value on the date of the grant
20 when in fact they were backdated; (b) misstatements relating to the amount of compensation
21 received by Apple executives during the relevant time; (c) misstatements that the Company
22 applied appropriate GAAP accounting for stock options by following APB No. 25; (d)
23 misstatements (with respect to the Company's annual reports for fiscal years 1999 through
24 2001) relating to the Company's intention to have executive stock options qualify for tax
25 deductions under Section 162(m); and (e) overstatement of the Company's operating and/or net
26 income (or understatement of the Company's operating and/or net loss) due to the failure to
27 recognize "instant paper profits" as expense and related financial effects associated with
28 backdated options awarded to executives (the incremental impact of which the Company

1 reported in the 2006 restatement was at least \$105 million on a pre-tax basis and \$84 million on
2 an after-tax basis from fiscal years 1998 through 2006).

3 **1. 1996 Annual Report**

4 193. The Company's Form 10-K for the fiscal year ended September 27, 1996 (filed
5 with the SEC on December 19, 1996 and signed by Anderson and reviewed and/or commented
6 upon by Heinen at a time when Heinen was chief legal officer of the Company (the "1996
7 Annual Report")) was materially false and misleading for the reasons discussed below.

8 194. The 1996 Annual Report states "[o]ptions may be granted under the 1990 Plan
9 to employees, including officers and directors who are employees, at not less than the fair
10 market value on the date of grant." This statement was false and misleading because stock
11 options were backdated and, as a result, the exercise prices of options were in fact less than the
12 fair market value on the true date of grant.

13 195. The 1996 Annual Report incorporated by reference certain sections of the 1997
14 Proxy, which as stated in the 1996 Annual Report was "to be delivered to shareholders in
15 connection with the Annual Meeting of Shareholders to be held February 5, 1997" (*i.e.*,
16 delivered subsequent to the date of the 1996 Annual Report). Such sections included the
17 Summary Compensation Table in the 1997 Proxy which was false and misleading for the
18 reasons stated above.

19 196. The 1996 Annual Report states "the Company has elected to continue measuring
20 compensation expense for its stock-based employee compensation plans using the intrinsic
21 value method prescribed by [APB No. 25], 'Accounting for Stock Issued to Employees'." This
22 statement is false and misleading. Since the market price of Apple shares on the true grant date
23 exceeded the exercise price, Apple should have recognized the difference

24 197. (*i.e.*, the instant paper profit or spread) as expense, but failed to do so. As a
25 result, the Company's statement that it followed APB No. 25 was false and misleading.

26 198. And because the Company did not properly account for the compensation
27 expense created by backdating, the following operating income/loss and net income/loss figures
28 in the 1996 Annual Report were overstated or understated, as the case may be: (a) the \$1.383

1 billion operating loss and \$816 million net loss figures reported for fiscal year 1996 were
2 understated; (b) the \$684 million operating income and \$424 million net income figures for
3 fiscal year 1995 were overstated; and (c) the \$522 million operating income and \$310 million
4 net income figures for fiscal year 1994 were overstated. In its 2006 Annual Report, which
5 contained the restatement of Apple's historical results necessitated by backdating, Apple did
6 not state the incremental pre- or post- tax effects of the failure to properly account for the
7 compensation expense created by backdating on its fiscal years 1994, 1995, 1996 financial
8 results.

9 **2. 1997 Annual Report**

10 199. The Company's Form 10-K for the fiscal year ended September 26, 1997 (filed
11 with the SEC on December 5, 1997 and signed by Jobs, Anderson, Campbell, and York and
12 reviewed and/or commented upon by Heinen at a time when Heinen was chief legal officer of
13 the Company (the "1997 Annual Report")) was materially false and misleading for the reasons
14 discussed below.

15 200. The 1997 Annual Report states "[o]ptions may be granted under the 1990 Plan
16 to employees, including officers and directors who are employees, at not less than the fair
17 market value on the date of grant." This statement was false and misleading because stock
18 options were backdated and, as a result, the exercise prices of options were in fact less than the
19 fair market value on the true date of grant.

20 201. The 1997 Annual Report incorporated by reference certain sections of the 1998
21 Proxy. Such sections included the Summary Compensation Table in the 1998 Proxy which was
22 false and misleading for the reasons stated above.

23 202. The 1997 Annual Report states "the Company has elected to follow [APB No.
24 25] and related interpretations in accounting for its employee stock option plans....Under [APB
25 No. 25], if the exercise price of the Company's employee stock options equals or exceeds the
26 fair value of the underlying stock on the date of grant, no compensation expense is recognized."
27 This statement is false and misleading. Since the market price of Apple shares on the true grant
28 date exceeded the exercise price, Apple should have recognized the difference (*i.e.*, the instant

1 paper profit or spread) as expense, but failed to do so. As a result, the Company's statement
2 that it followed APB No. 25 was false and misleading.

3 203. And because the Company did not properly account for the compensation
4 expense created by backdating, the following operating income/loss and net income/loss figures
5 in the 1997 Annual Report were overstated or understated, as the case may be: (a) the \$1.070
6 billion operating loss and \$1.045 billion net loss figures reported for fiscal year 1997 were
7 understated; (b) the \$1.383 billion operating loss and \$816 million net loss figures reported for
8 fiscal year 1996 were understated; (b) the \$684 million operating income and \$424 million net
9 income figures for fiscal year 1995 were overstated. In its 2006 Annual Report, which
10 contained the restatement of Apple's historical results necessitated by backdating, Apple did
11 not state the incremental pre- or post- tax effects of the failure to properly account for the
12 compensation expense created by backdating had on its fiscal years 1995, 1996, 1997 financial
13 results.

14 3. 1998 Annual Report

15 204. The Company's Form 10-K405 for the fiscal year ended September 25, 1998
16 (filed with the SEC on December 23, 1998 and signed by Jobs, Anderson, Campbell, and York
17 and reviewed and/or commented upon by Heinen at a time when Heinen was chief legal officer
18 of the Company (the "1998 Annual Report")) was materially false and misleading for the
19 reasons discussed below.

20 205. The 1998 Annual Report states, in a chart setting forth the aggregate number of
21 stock option grants and their weighted average exercise price for fiscal years 1996, 1997 and
22 1998, that the options were "Granted (price equals FMV)." "FMV" stands for fair market
23 value. This statement was false and misleading because some or all of the stock options
24 granted in those years were backdated and, as a result, the exercise price did not equal the fair
25 market value on the date of grant.⁸

26
27 ⁸ The same chart contains a row depicting options "[g]ranted (price *less than* FMV)" and a footnote states: "The
28 options granted in fiscal 1997 at a price *less than* fair market value were to existing...optionholders [of a company
Apple acquired] as part of the total purchase price paid for [the acquired company]." (Emphasis added) This
differentiation between "in the money" options granted to optionholders in connection with an acquisition and the

206. The 1998 Annual Report includes a chart depicting option grants during fiscal year 1998 to Anderson, Cook, Rubinstein and Mandich as reflected in the table included earlier herein and states that “[a]ll options were granted at an exercise price equal to the fair market value based on the closing market value of Common Stock on the Nasdaq National Market on the date of grant.” These statements are false and misleading because they fail to disclose the backdating scheme and that the exercise price in fact was not the fair market value of the Company’s common stock on the date of grant. The chart of option grants is set forth below:

OPTION GRANTS IN LAST FISCAL YEAR						
	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
	NUMBER OF	PERCENT OF				
	SECURITIES	TOTAL				
	UNDERLYING	OPTIONS GRANTED TO EMPLOYEES IN				
	OPTIONS GRANTED	FISCAL YEAR	EXERCISE OR	EXPIRATION		
NAME	(#)	(\$/SH)	BASE PRICE	DATE	5% (\$)	10% (\$)
Steven P. Jobs		0.00%				
Fred D. Anderson	250,000	1.80%	13.69	12/19/07	2,151,999	5,453,587
Timothy D. Cook	700,000	5.04%	17.69	2/02/08	7,786,502	19,732,524
Jonathan Rubinstein	300,000	2.16%	13.69	12/19/07	2,582,399	6,544,305
Mitchell Mandich	224,250	1.61%	13.69	12/19/07	1,930,343	4,891,868
	200,000	1.44%	13.13	12/29/07	1,650,848	4,183,574

207. In addition, the 1998 Annual Report includes a Summary Compensation Table that materially misstated the compensation of, and failed to disclose the illegal compensation received from the Company by, Anderson in fiscal years 1996, 1997 and 1998, Mandich and Rubinstein in fiscal years 1997 and 1998 and Cook in fiscal year 1998 as a result of their receipt of backdated stock options at less than fair market value. The Summary Compensation Table is set forth below:

supposedly “at the money” options granted to Apple executives establishes that Apple knew how to distinguish between the two when it wanted to tell shareholders the truth.

SUMMARY COMPENSATION TABLE						
NAME AND PRINCIPAL POSITION	FISCAL YEAR	ANNUAL COMPENSATION		SECURITIES RESTRICTED STOCK AWARDS (\$)	LONG-TERM COMPENSATION	
		SALARY (\$)	BONUS (\$)		ALL UNDERLYING OPTIONS (#)	OTHER COMPENSATION (\$)
Steven P. Jobs interim Chief Executive Officer	1998					
	1997				30,000	
	1996					
Fred D. Anderson Executive Vice President and Chief Financial Officer	1998	604,283			250,000	60,123
	1997	520,311		40,748	850,000	250,489
	1996	252,156	1,275,000		400,000	141,361
Timothy D. Cook Senior Vice President,	1998	223,953	500,000	500,000	700,000	90,849
	1997					
Jonathan Rubinstein Senior Vice President,	1998	402,095			300,000	4,804
	1997	250,262	100,000	19,108	700,000	1,864
Hardware Engineering	1996					
Mitchell Mandich Senior Vice President,	1998	402,253			424,250	8,118
	1997	174,348	104,000		565,050	11
Worldwide Sales	1996					

208. Specifically, Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the “dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered ...” (17 C.F.R. § 229.402(b)(2)(iii)(B)) Additionally, the Instructions to Item 402(b)(2)(iii)(A) and (B) further provide that the following items be disclosed in the Summary Compensation Table:

- (i) For stock or any other form of non-cash compensation, disclose the fair market value at the time the compensation is awarded, earned or paid.
- (ii) Above-market or preferential earnings on restricted stock, options, SARs or deferred compensation paid during the fiscal year or payable during that period...

(iii) The dollar value of the difference between the price paid by a named executive officer for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise), and the fair market value of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant.

(*Id.*) In addition, the disclosures in the Summary Compensation Table of “Annual Compensation” and “Securities Underlying Options” are materially misleading because they omit the additional compensation received as a result of the backdated options.

209. Further, the Option Grants in Last Fiscal Year table is materially misleading because it fails to include an additional column showing the market price on the date of the grant as required by Item 402(c)(2)(iv) even though options granted in fiscal year 1998 were backdated.

210. The 1998 Annual Report states “the Company has elected to follow [APB No. 25] and related interpretations in accounting for its employee stock option plans and employee stock purchase plan shares....Under APB No. 25, when the exercise price of the Company’s employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.” This statement is false and misleading. Since the market price of Apple shares on the true grant date exceeded the exercise price, Apple should have recognized the difference (*i.e.*, the instant paper profit or spread) as expense, but failed to do so. As a result, the Company’s statement that it followed APB No. 25 was false and misleading.

211. And because the Company did not properly account for the compensation expense created by backdating, the following operating income/loss and net income/loss figures in the 1998 Annual Report were overstated or understated, as the case may be: (a) the \$261 million operating income and \$309 million net income figures reported for fiscal year 1998 were overstated; (b) the \$1.070 billion operating loss and \$1.045 billion net loss figures reported for fiscal year 1997 were understated; (c) the \$1.383 billion operating loss and \$816 million net loss figures reported for fiscal year 1996 were understated; and (d) the \$484 million net income figure reported for fiscal year 1995 was overstated. In its 2006 Annual Report

1 which contained the restatement of Apple's historical results necessitated by backdating, Apple
 2 did not state the incremental pre- or post-tax effects of the failure to properly account for the
 3 compensation expense created by backdating on its fiscal years 1996 and 1997 financial results.
 4 In fiscal year 1998, Apple's undisclosed backdating caused a \$1 million increase in pre-tax
 5 compensation expense and had no effect on post-tax compensation expenses.

6 **4. 1999 Annual Report**

7 212. The Company's Form 10-K for the fiscal year ended September 25, 1999 (filed
 8 with the SEC on December 22, 1999 and signed by Anderson, Jobs, Campbell and Drexler and
 9 reviewed and/or commented upon by Heinen at a time when Heinen was chief legal officer of
 10 the Company (the "1999 Annual Report")) was materially false and misleading for the reasons
 11 discussed below.

12 213. The 1999 Annual Report states, in a chart setting forth the aggregate number of
 13 stock option grants and their weighted average exercise price for fiscal years 1997, 1998 and
 14 1999, that the options were "Granted (price equals FMV)." "FMV" stands for fair market
 15 value. This statement was false and misleading because some or all of the stock options
 16 granted in those years were backdated and, as a result, the exercise price did not equal fair
 17 market value on the date of grant.⁹

18 214. The 1999 Annual Report includes a chart depicting option grants during fiscal
 19 year 1998 to Anderson, Cook, Rubinstein and Mandich as reflected in the table included earlier
 20 herein and states that "[a]ll options were granted at an exercise price equal to the fair market
 21 value based on the closing market value of Common Stock on the Nasdaq National Market on
 22 the date of grant." These statements are false and misleading because they fail to disclose the
 23 backdating scheme and that the exercise price in fact was not the fair market value of the
 24 Company's common stock on the date of grant. The Option Grants Chart is set forth below:

25 _____
 26 ⁹ The same chart contains a row depicting options "[g]ranted (price *less than* FMV)" and a footnote states: "The
 27 options granted in fiscal 1997 at a price *less than* fair market value were to existing...optionholders [of a company
 28 Apple acquired] as part of the total purchase price paid for [the acquired company]." (Emphasis added) This
 differentiation between "in the money" options granted to optionholders in connection with an acquisition and the
 supposedly "at the money" options granted to Apple executives establishes that Apple knew how to distinguish
 between the two when it wanted to tell shareholders the truth.

OPTION GRANTS IN LAST FISCAL YEAR						
		INDIVIDUAL GRANTS				
	NUMBER OF SECURITIES				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
	UNDERLYING	PERCENT OF TOTAL				
	OPTIONS	OPTIONS GRANTED TO				
	GRANTED	EMPLOYEES IN FISCAL YEAR	OR BASE PRICE (\$/SH)	EXPIRATION DATE	5% (\$)	10% (\$)
Steven P. Jobs		0.00%				
Fred D. Anderson	475,000	7.98%	34.63	3/2/09	10,343,351	26,212,083
Timothy D. Cook	300,000	5.03%	34.63	3/2/09	6,532,643	16,555,000
Mitchell Mandich	387,876	6.51%	34.63	3/2/09	8,446,185	21,404,290
Jonathan Rubinstein	458,334	7.70%	34.63	3/2/09	9,980,441	25,292,398

215. These statements are false and misleading because they fail to disclose the backdating scheme and that the exercise price in fact was not the fair market value of the Company's common stock on the date of grant.

216. In addition, the 1999 Annual Report includes a Summary Compensation Table that materially misstated the compensation of, and failed to disclose the illegal compensation received from the Company by, Anderson, Mandich and Rubinstein in fiscal years 1997, 1998 and 1999, and Cook in fiscal years 1998 and 1999 as a result of their receipt of backdated stock options at less than fair market value. The Summary Compensation Table is set forth below:

		ANNUAL COMPENSATION		SECURITIES	UNDERLYING OPTIONS	ALL OTHER COMPENSATION
		SALARY	BONUS	RESTRICTED STOCK AWARDS		
NAME AND PRINCIPAL POSITION	FISCAL YEAR	(\$)	(\$)	(\$)	(#)	(\$)
					LONG-TERM COMPENSATION	
Steven P. Jobs interim Chief Executive Officer	1999	1				
	1998	1				
	1997				30,000	
Fred D. Anderson	1999	605,260			475,000	29,700
Executive Vice President	1998	604,283			250,000	60,123
and Chief Financial Officer	1997	520,311		40,748	850,000	250,489
Timothy D. Cook	1999	401,940			300,000	29,519
Senior Vice President,	1998	223,953	500,000		700,000	90,849
Worldwide Operations	1997					
Mitchell Mandich	1999	402,941			387,876	7,200
Senior Vice President,	1998	402,253			424,250	8,118
Worldwide Sales	1997	174,348	104,000		565,050	565,050
Jonathan Rubinstein	1999	402,200			458,334	5,888
Senior Vice President,	1998	402,095			300,000	4,804
Hardware Engineering	1997	250,262	100,000	19,108	700,000	1,864

217. Specifically, Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the “dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered ...” (17 C.F.R. § 229.402(b)(2)(iii)(B)). Additionally, the Instructions to Item 402(b)(2)(iii)(A) and (B) further provide that the following items be disclosed in the Summary Compensation Table:

- (i) For stock or any other form of non-cash compensation, disclose the fair market value at the time the compensation is awarded, earned or paid.
- (ii) Above-market or preferential earnings on restricted stock, options, SARs or deferred compensation paid during the fiscal year or payable during that period...

(iii) The dollar value of the difference between the price paid by a named executive officer for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise), and the fair market value of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant.

(*Id.*) In addition, the disclosures in the Summary Compensation Table of “Annual Compensation” and “Securities Underlying Options” are materially misleading because they omit the additional compensation received as a result of the backdated options.

218. Further, the Option Grants in Last Fiscal Year table is materially misleading because it fails to include an additional column showing the market price on the date of grant as required by Item 402(c)(2)(iv) even though options granted in fiscal year 1999 were backdated.

219. The 1999 Annual Report states “the Company has elected to follow [APB No. 25] and related interpretations in accounting for its employee stock option plans and employee stock purchase plan shares....Under APB No. 25, when the exercise price of the Company’s employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.” This statement is false and misleading. Since the market price of Apple shares on the true grant date exceeded the exercise price, Apple should have recognized the difference (*i.e.*, the instant paper profit or spread) as expense, but failed to do so. As a result, the Company’s statement that it followed APB No. 25 was false and misleading.

220. The 1999 Annual Report stated that the “Company intends that options granted under the Company’s stock option plans be deductible by the Company under Section 162(m).” Section 162(m) generally limits a public company’s tax deductions for certain executive officers’ compensation to \$1 million unless the remuneration is “performance based.” To be “performance based” within the meaning of the Code, stock options must be issued at an exercise price no less than the fair market value of the company’s stock on the date of grant. Thus, a company’s “at the money” stock option expenses are generally tax deductible even though an executive is paid more than \$1 million. The Company’s statement of an intention to have options be deductible under Section 162(m) was false and misleading because certain

1 options were backdated and, as a result, expense incurred with respect to such options could not
2 have been properly deductible under Section 162(m).

3 221. And because the Company did not properly account for the compensation
4 expense created by backdating, the following operating income/loss and net income/loss figures
5 in the 1999 Annual Report were overstated or understated, as the case may be: (a) the \$359
6 million operating income and \$601 million net income figures reported for fiscal year 1999
7 were overstated; (b) the \$261 million operating income and \$309 million net income figures
8 reported for fiscal year 1998 were overstated; (c) the \$1.070 billion operating loss and \$1.045
9 billion net loss figures reported for fiscal year 1997 were understated; (d) the \$816 million net
10 loss figure reported for fiscal year 1996 was understated; and (e) \$424 million net income
11 figure reported for fiscal year 1995 was overstated. In its 2006 Annual Report which contained
12 the restatement of Apple's historical results necessitated by backdating, Apple did not state the
13 incremental pre- or post-tax effects of the failure to properly account for the compensation
14 expense created by backdating on its fiscal years 1995, 1996 and 1997 financial results. In
15 fiscal year 1998, Apple's undisclosed backdating caused a \$1 million increase in pre-tax
16 compensation expense and had no effect on post-tax compensation expenses. In fiscal year
17 1999, Apple's undisclosed backdating caused \$8 million and \$6 million increases in pre-tax
18 and after-tax compensation expenses, respectively; thus Apple's reported operating and net
19 income for fiscal year 1999 should have been \$351 million and \$595 million, respectively.

20 **5. 2000 Annual Report**

21 222. The Company's Form 10-K for the fiscal year ended September 30, 2000 (filed
22 with the SEC on December 14, 2000 and signed by Anderson, Jobs, Campbell, Drexler,
23 Levinson and York (the "2000 Annual Report")) was materially false and misleading for the
24 reasons discussed below.

25 223. The 2000 Annual Report includes a chart depicting option grants during fiscal
26 year 2000 to Jobs and Johnson as reflected in the table included earlier herein and states that
27 "[a]ll options were granted at an exercise price equal to the fair market value based on the
28 closing market value of Common Stock on the Nasdaq National Market on the date of grant."

These statements are false and misleading because they fail to disclose the backdating scheme and that the exercise price in fact was not the fair market value of the Company's common stock on the date of grant. The Options Grants Chart is set forth below:

OPTION GRANTS IN LAST FISCAL YEAR						
		INDIVIDUAL GRANTS			POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
	NUMBER OF					
	SECURITIES	PERCENT OF TOTAL				
	UNDERLYING	OPTIONS GRANTED	EXERCISE			
	OPTIONS	TO EMPLOYEES IN	OR BASE	EXPIRATION		
NAME	GRANTED (#)	FISCAL YEAR	PRICE (\$/SH)	DATE	5% (\$)	10% (\$)
Steven P. Jobs	20,000,000	43.80%	43.59	1/12/10	548,317,503	1,389,544,207
Fred D. Anderson						
Ronald B. Johnson	1,200,000	2.63%	47.44	12/14/09	35,799,827	90,723,790
Mitchell Mandich(4)						
Jonathan Rubinstein						

224. The 2000 Annual Report reflects that Jobs received a grant of 10 million options (not split-adjusted) in January 2000 "at an exercise price equal to the fair market value based on the closing market value of Common Stock on the Nasdaq National market on the date of grant." The 2000 Annual Report further disclosed that the grant date was January 12, 2000, a date when Apple's stock price closed at \$43.5938, and therefore the exercise price assigned to the award was \$43.5938. These statements were false.

225. As Apple has admitted, this grant was not memorialized until six days after January 12, 2000. During that time, Apple's stock price ran up from \$43.5938 to \$51.97 - a jump of almost 20%. Only then (on January 18, 2000) was board action taken to memorialize the grant. Thus, the exercise price assigned to the option grant should have been the January 18 Apple closing price of \$51.97 rather than the \$43.5938 that was falsely disclosed in the 2000 Annual Report. The net result is that CEO Jobs was given an "instant paper profit" in the

amount of \$83,762,000 (*i.e.*, \$51.97 minus \$43.5938 multiplied times 10 million shares) that was never disclosed to shareholders.

226. In addition, the 2000 Annual Report includes a Summary Compensation Table that materially misstated the compensation of, and failed to disclose the illegal compensation received from the Company by, Jobs in fiscal year 2000, Anderson, Mandich and Rubinstein in fiscal years 1998 and 1999, and Johnson in fiscal year 2000 as a result of their receipt of backdated stock options at less than fair market value on the date of grant. The Summary Compensation Table is set forth below:

		ANNUAL COMPENSATION		SECURITIES	ALL OTHER
		SALARY	BONUS	UNDERLYING	
NAME AND PRINCIPAL POSITION	FISCAL YEAR			OPTIONS	COMPENSATION
		(\$)	(\$)	(#)	(\$)
				LONG-TERM COMPENSATION	
Steven P. Jobs	2000	1	90,000,000	20,000,000	
Chief Executive Officer	1999	1			
	1998	1			
Fred D. Anderson	2000	660,414			6,750
Executive Vice President	1999	605,260		950,000	29,700
and Chief Financial Officer	1998	604,283		500,000	60,123
Ronald B. Johnson	2000	328,719	500,000	1,200,000	111,444
Senior Vice President,	1999				
New Business Development	1998				
Mitchell Mandich	2000	453,444			7,650
Senior Vice President,	1999	402,941		775,752	7,200
Worldwide Sales(8)	1998	402,253		916,668	8,118
Jonathan Rubinstein	2000	451,949			6,577
Senior Vice President,	1999	402,200		458,334	5,888
Hardware Engineering	1998	402,095		600,000	4,804

227. Specifically, Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the “dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered ...” (17 C.F.R. § 229.402(b)(2)(iii)(B)). Additionally, the Instructions to Item 402(b)(2)(iii)(A) and (B) further provide that the following items be disclosed in the Summary Compensation Table:

- (i) For stock or any other form of non-cash compensation, disclose the fair market value at the time the compensation is awarded, earned or paid.
- (ii) Above-market or preferential earnings on restricted stock, options, SARs or deferred compensation paid during the fiscal year or payable during that period...
- (iii) The dollar value of the difference between the price paid by a named executive officer for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise), and the fair market value of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant.

(*Id.*) In addition, the disclosures in the Summary Compensation Table of “Annual Compensation” and “Securities Underlying Options” are materially misleading because they omit the additional compensation received as a result of the backdated options.

228. Further, the Option Grants in Last Fiscal Year table is materially misleading because it fails to include an additional column showing the market price on the date of the grant as required by Item 402(c)(2)(iv) even though options granted in fiscal year 2000 were backdated.

229. The 2000 Annual Report states “the Company has elected to follow [APB No. 25] and related interpretations in accounting for its employee stock option plans and employee stock purchase plan shares....Under...[APB No. 25], when the exercise price of the Company’s employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.” This statement is false and misleading. Since the market price of Apple shares on the true grant date exceeded the exercise price, Apple should have recognized the difference (*i.e.*, the instant paper profit or spread) as expense, but failed to do so. As a result, the Company’s statement that it followed APB No. 25 was false and misleading.

1 230. The 2000 Annual Report stated that the “Company intends that options granted
2 under the Company’s stock option plans be deductible by the Company under Section 162(m).”
3 Section 162(m) generally limits a public company’s tax deductions for certain executive
4 officers’ compensation to \$1 million unless the remuneration is “performance based.” To be
5 “performance based” within the meaning of the Code, stock options must be issued at an
6 exercise price no less than the fair market value of the company’s stock on the date of grant.
7 Thus, a company’s “at the money” stock option expenses are generally tax deductible even
8 though an executive is paid more than \$1 million. The Company’s statement of an intention to
9 have options be deductible under Section 162(m) was false and misleading because certain
10 options were backdated and, as a result, expense incurred with respect to such options could not
11 have been properly deductible under Section 162(m).

12 231. And because the Company did not properly account for the compensation
13 expense created by backdating, the following operating income/loss and net income/loss figures
14 in the 2000 Annual Report were overstated or understated, as the case may be: (a) the \$522
15 million operating income and \$786 million net income figures reported for fiscal year 2000
16 were overstated; (b) the \$359 million operating income and \$601 million net income figures
17 reported for fiscal year 1999 were overstated; (c) the \$261 million operating income and \$309
18 million net income figures reported for fiscal year 1998 were overstated; (d) the \$1.045 billion
19 net loss figure reported for fiscal year 1997 was understated; and (e) the \$816 million net loss
20 figure reported for fiscal year 1996 was understated. In its 2006 Annual Report which
21 contained the restatement of Apple’s historical results necessitated by backdating, Apple did
22 not state the incremental pre- or post-tax effects of the failure to properly account for the
23 compensation expense created by backdating had on its fiscal years 1996 and 1997 financial
24 results. In fiscal year 1998, Apple’s undisclosed backdating caused a \$1 million increase in
25 pre-tax compensation expense and had no effect on post-tax compensation expenses. In fiscal
26 year 1999, Apple’s undisclosed backdating caused \$8 million and \$6 million increases in pre-
27 tax and after-tax compensation expenses, respectively; thus, Apple’s reported operating and net
28 income for fiscal year 1999 should have been \$351 million and \$595 million, respectively. In

fiscal year 2000, Apple's undisclosed backdating caused \$13 million and \$9 million pre-tax and after-tax compensation expenses, respectively; thus, Apple's reported operating and net income for fiscal year 2000 should have been \$509 million and \$777 million, respectively.

6. 2001 Annual Report

232. The Company's Form 10-K405 for the fiscal year ended September 29, 2001 (filed with the SEC on December 21, 2001 and signed by Anderson, Jobs, Campbell, Drexler, Levinson and York and reviewed and/or commented upon by Heinen at a time when Heinen was chief legal officer of the Company (the "2001 Annual Report")) was materially false and misleading for the reasons discussed below.

233. The 2001 Annual Report includes a chart depicting option grants during fiscal year 2001 to Anderson, Cook, Rubinstein and Tevanian as reflected in the table included earlier herein and states that "[a]ll options were granted at an exercise price equal to the fair market value based on the closing market value of Common Stock on the Nasdaq National Market on the date of grant." The Option Grant Chart is set forth below:

OPTION GRANTS IN LAST FISCAL YEAR

Name	Individual Grants					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term		
	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)	Expiration Date		10% (\$)		5% (\$)
Steven P. Jobs	—	—	—	—	—	—	—	—
Fred D. Anderson	1,000,000	2.87%	\$ 16.8125	1/17/11		\$ 10,573,291	\$	26,794,795
Timothy D. Cook	1,000,000	2.87%	\$ 16.8125	1/17/11		\$ 10,573,291	\$	26,794,795
Jonathan Rubinstein	1,000,000	2.87%	\$ 16.8125	1/17/11		\$ 10,573,291	\$	26,794,795
Avadis Tevanian, Jr.	1,000,000	2.87%	\$ 16.8125	1/17/11		\$ 10,573,291	\$	26,794,795

1 234. These statements are false and misleading because they fail to disclose the
2 backdating scheme and that the exercise price in fact was not the fair market value of the
3 Company's common stock on the date of grant.

4 235. The 2001 Annual Report reflects that Jobs received a grant of 20 million
5 options (split-adjusted). While the 2001 Annual Report does not expressly state that these 20
6 million options were granted at fair market value on the date of grant, it does generally state
7 that "options granted under the 1998 Plan were at an exercise price equal to the fair market
8 value of the Common Stock on the date of grant." These statements were false and misleading
9 because they failed to disclose that these options were backdated.

10 236. As Apple has now admitted, this grant was not memorialized until six days after
11 January 12, 2000. During that time, Apple's stock price ran up from \$43.5938 to \$51.97 - a
12 jump of almost 20%. Only then (on January 18, 2000) was board action taken to memorialize
13 the grant. Thus, the exercise price assigned to the option grant should have been the January 18
14 Apple closing price of \$51.97 rather than the \$43.5938 that was falsely disclosed. The net
15 result is that CEO Jobs was given an "instant paper profit" in the amount of \$83,762,000 (*i.e.*,
16 \$51.97 minus \$43.5938 multiplied times 10 million shares) that was never disclosed to
17 shareholders.

18 237. In addition, the 2001 Annual Report includes a Summary Compensation Table
19 that materially misstated the compensation of, and failed to disclose the illegal compensation
20 received from the Company by, Jobs in fiscal year 2000, Anderson, Cook and Rubinstein in
21 fiscal years 1999 and 2001, and Tevanian in fiscal year 2001 as a result of their receipt of
22 backdated stock options at less than fair market value on the date of grant. The Summary
23 Compensation Table is set forth below:

SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Annual Compensation		Long-Term Compensation	All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Securities Underlying Options* (#)	
Steven P. Jobs Chief Executive Officer	2001	1	43,511,534		40,484,594
	2000	1	—	—	—
	1999	1	—	20,000,000	—
Fred D. Anderson Executive Vice President and Chief Financial Officer	2001	657,039	—	1,000,000	7,312
	2000	660,414	—	—	6,750
	1999	605,260	—	950,000	29,700
Timothy D. Cook Senior Vice President, Worldwide Operations, Sales, Service & Support	2001	452,219	500,000	1,000,000	7,875
	2000	451,673	—	—	6,352
	1999	401,940	—	600,000	29,519
Jonathan Rubinstein Senior Vice President, Hardware Engineering	2001	469,737	—	1,000,000	7,875
	2000	451,949	—	—	6,577
	1999	402,200	—	916,668	5,888
Avadis Tevanian, Jr. Ph.D Senior Vice President, Software Engineering	2001	460,873	500	1,000,000	10,200
	2000	451,673	—	—	10,200
	1999	401,939	—	1,019,580	9,600

238. Specifically, Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the “dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered ...” (17 C.F.R. § 229.402(b)(2)(iii)(B)). Additionally, the Instructions to Item 402(b)(2)(iii)(A) and (B) further provide that the following items be disclosed in the Summary Compensation Table:

- (i) For stock or any other form of non-cash compensation, disclose the fair market value at the time the compensation is awarded, earned or paid.
- (ii) Above-market or preferential earnings on restricted stock, options, SARs or deferred compensation paid during the fiscal year or payable during that period...
- (iii) The dollar value of the difference between the price paid by a named executive officer for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise), and the fair market value of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant.

1 (*Id.*) In addition, the disclosures in the Summary Compensation Table of “Annual
2 Compensation” and “Securities Underlying Options” are materially misleading because they
3 omit the additional compensation received as a result of the backdated options.

4 239. Further, the Option Grants in Last Fiscal Year table is materially misleading
5 because it fails to include an additional column showing the market price on the date of the
6 grant as required by Item 402(c)(2)(iv) even though options granted in fiscal year 2001 were
7 backdated.

8 240. The 2001 Annual Report stated “the Company has elected to follow [APB No.
9 25] and related interpretations in accounting for its employee stock options and employee stock
10 purchase plan shares....Under...[APB No. 25], when the exercise price of the Company’s
11 employee stock options equals the market price of the underlying stock on the date of the grant,
12 no compensation expense is recognized.” This statement is false and misleading. Since the
13 market price of Apple shares on the true grant date exceeded the exercise price, Apple should
14 have recognized the difference (*i.e.*, the instant paper profit or spread) as expense, but failed to
15 do so. As a result, the Company’s statement that it followed APB No. 25 was false and
16 misleading.

17 241. The 2001 Annual Report stated that the “Company intends that options granted
18 under the Company’s stock option plans be deductible by the Company under Section 162(m).”
19 Section 162(m) generally limits a public company’s tax deductions for certain executive
20 officers’ compensation to \$1 million unless the remuneration is “performance based.” To be
21 “performance based” within the meaning of the Code, stock options must be issued at an
22 exercise price no less than the fair market value of the company’s stock on the date of grant.
23 Thus, a company’s “at the money” stock option expenses are generally tax deductible even
24 though an executive is paid more than \$1 million. The Company’s statement of an intention to
25 have options be deductible under Section 162(m) was false and misleading because certain
26 options were backdated and, as a result, expense incurred with respect to such options could not
27 have been properly deductible under Section 162(m).

242. And because the Company did not properly account for the compensation expense created by backdating, the following operating income/loss and net income/loss figures in the 2001 Annual Report were overstated or understated, as the case may be: (a) the \$344 million operating loss and \$25 million net loss figures reported for fiscal year 2001 were understated; (b) the \$522 million operating income and \$786 million net income figures reported for fiscal year 2000 were overstated; (c) the \$359 million operating income and \$601 million net income figures reported for fiscal year 1999 were overstated; (d) the \$309 million net income figure reported for fiscal year 1998 was overstated; and (e) the \$1.045 billion net loss figure reported for fiscal year 1997 was understated. In its 2006 Annual Report which contained the restatement of Apple's historical results necessitated by backdating, Apple did not state the incremental pre- or post-tax effects of the failure to properly account for the compensation expense created by backdating on its fiscal year 1997 financial results. In fiscal year 1998, Apple's undisclosed backdating caused a \$1 million increase in pre-tax compensation expense. In fiscal year 1999, Apple's undisclosed backdating caused \$8 million and \$6 million increases in pre-tax and after-tax compensation expenses, respectively; thus, Apple's reported operating and net income for fiscal year 1999 should have been \$351 million and \$595 million, respectively. In fiscal year 2000, Apple's undisclosed backdating caused \$13 million and \$9 million pre-tax and after-tax compensation expenses, respectively; thus, Apple's reported operating and net income for fiscal year 2000 should have been \$509 million and \$777 million, respectively. In fiscal year 2001, Apple's undisclosed backdating caused \$19 million and \$13 million in pre-tax and after-tax compensation expenses, respectively; thus, Apple's reported operating and net loss for fiscal year 2001 should have been \$363 million and \$38 million, respectively.

7. 2001 Annual Report

243. The Company's Form 10-K405 for the fiscal year ended September 29, 2001 (filed with the SEC on December 21, 2001 and signed by Anderson, Jobs, Campbell, Drexler, Levinson and York and reviewed and/or commented upon by Heinen at a time when Heinen

was chief legal officer of the Company (the “2001 Annual Report”)) was materially false and misleading for the reasons discussed below.

244. The 2001 Annual Report includes a chart depicting option grants during fiscal year 2001 to Anderson, Cook, Rubinstein and Tevanian as reflected in the table included earlier herein and states that “[a]ll options were granted at an exercise price equal to the fair market value based on the closing market value of Common Stock on the Nasdaq National Market on the date of grant.” The Option Grant Chart is set forth below:

OPTION GRANTS IN LAST FISCAL YEAR										
	Individual Grants									
						Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(3)				
Name	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year(1)		Exercise or Base Price (\$/Sh)(2)		Expiration Date	10% (\$)			5% (\$)
Steven P. Jobs	—	—		—		—		—		—
Fred D. Anderson	1,000,000	2.87%	\$	16.8125		1/17/11	\$	10,573,291	\$	26,794,795
Timothy D. Cook	1,000,000	2.87%	\$	16.8125		1/17/11	\$	10,573,291	\$	26,794,795
Jonathan Rubinstein	1,000,000	2.87%	\$	16.8125		1/17/11	\$	10,573,291	\$	26,794,795
Avadis Tevanian, Jr.	1,000,000	2.87%	\$	16.8125		1/17/11	\$	10,573,291	\$	26,794,795

245. These statements are false and misleading because they fail to disclose the backdating scheme and that the exercise price in fact was not the fair market value of the Company’s common stock on the date of grant.

246. The 2001 Annual Report reflects that Jobs received a grant of 20 million options (split-adjusted). While the 2001 Annual Report does not expressly state that these 20

million options were granted at fair market value on the date of grant, it does generally state that “options granted under the 1998 Plan were at an exercise price equal to the fair market value of the Common Stock on the date of grant.” These statements were false and misleading because they failed to disclose that these options were backdated.

247. As Apple has admitted, this grant was not memorialized until six days after January 12, 2000. During that time, Apple’s stock price ran up from \$43.5938 to \$51.97 - a jump of almost 20%. Only then (on January 18, 2000) was board action taken to memorialize the grant. Thus, the exercise price assigned to the option grant should have been the January 18 Apple closing price of \$51.97 rather than the \$43.5938 that was falsely disclosed. The net result is that CEO Jobs was given an “instant paper profit” in the amount of \$83,762,000 (*i.e.*, \$51.97 minus \$43.5938 multiplied times 10 million shares) that was never disclosed to shareholders.

248. In addition, the 2001 Annual Report includes a Summary Compensation Table that materially misstated the compensation of, and failed to disclose the illegal compensation received from the Company by, Jobs in fiscal year 2000, Anderson, Cook and Rubinstein in fiscal years 1999 and 2001, and Tevanian in fiscal year 2001 as a result of their receipt of backdated stock options at less than fair market value on the date of grant. The Summary Compensation Table is set forth below:

SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation		All Other Compensation (\$)	
		Salary (\$)		Bonus (\$)	Securities Underlying Options*			
Steven P. Jobs Chief Executive Officer	2001	1		43,511,534	(1)	—	40,484,594	(1)
	2000	1		—		20,000,000	—	
	1999	1		—		—	—	
Fred D. Anderson Executive Vice President and Chief Financial Officer	2001	657,039		—		1,000,000	7,312	(2)
	2000	660,414		—		—	6,750	(2)
	1999	605,260		—		950,000	29,700	(3)

1	Timothy D. Cook	2001	452,219	500,000	(4)	1,000,000	7,875(2)
2	Senior Vice President,	2000	451,673	—		—	6,352(2)
3	Worldwide Operations,	1999	401,940	—		600,000	29,519(5)
4	Sales, Service & Support						
5	Jonathan Rubinstein	2001	469,737	—		1,000,000	7,875(2)
6	Senior Vice President,	2000	451,949	—		—	6,577(2)
7	Hardware Engineering	1999	402,200	—		916,668	5,888(6)
8							
9	Avadis Tevanian, Jr.	2001	460,873	500	(7)	1,000,000	10,200(2)
10	Ph.D	2000	451,673	—		—	10,200(2)
11	Senior Vice President,	1999	401,939	—		1,019,580	9,600(2)
12	Software Engineering						

249. The foregoing statements were false and misleading because Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the “dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered ...” (17 C.F.R. § 229.402(b)(2)(iii)(B)), and Apple failed to include the non-cash compensation attributable to backdated options. Additionally, the Instructions to Item 402(b)(2)(iii)(A) and (B) further provide that the following items be disclosed in the Summary Compensation Table:

- (i) For stock or any other form of non-cash compensation, disclose the fair market value at the time the compensation is awarded, earned or paid.
- (ii) Above-market or preferential earnings on restricted stock, options, SARs or deferred compensation paid during the fiscal year or payable during that period...
- (iii) The dollar value of the difference between the price paid by a named executive officer for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise), and the fair market value of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant.

(*Id.*) In addition, the disclosures in the Summary Compensation Table of “Annual Compensation” and “Securities Underlying Options” are materially misleading because they omit the additional compensation received as a result of the backdated options.

1 250. Further, the Option Grants in Last Fiscal Year table is materially misleading
2 because it fails to include an additional column showing the market price on the date of the
3 grant as required by Item 402(c)(2)(iv) even though options granted in fiscal year 2001 were
4 backdated.

5 251. The 2001 Annual Report stated “the Company has elected to follow [APB No.
6 25] and related interpretations in accounting for its employee stock options and employee stock
7 purchase plan shares....Under...[APB No. 25], when the exercise price of the Company’s
8 employee stock options equals the market price of the underlying stock on the date of the grant,
9 no compensation expense is recognized.” This statement is false and misleading. Since the
10 market price of Apple shares on the true grant date exceeded the exercise price, Apple should
11 have recognized the difference (*i.e.*, the instant paper profit or spread) as expense, but failed to
12 do so. As a result, the Company’s statement that it followed APB No. 25 was false and
13 misleading.

14 252. The 2001 Annual Report stated that the “Company intends that options granted
15 under the Company’s stock option plans be deductible by the Company under Section 162(m).”
16 Section 162(m) generally limits a public company’s tax deductions for certain executive
17 officers’ compensation to \$1 million unless the remuneration is “performance based.” To be
18 “performance based” within the meaning of the Code, stock options must be issued at an
19 exercise price no less than the fair market value of the company’s stock on the date of grant.
20 Thus, a company’s “at the money” stock option expenses are generally tax deductible even
21 though an executive is paid more than \$1 million. The Company’s statement of an intention to
22 have options be deductible under Section 162(m) was false and misleading because certain
23 options were backdated and, as a result, expense incurred with respect to such options could not
24 have been properly deductible under Section 162(m).

25 253. And because the Company did not properly account for the compensation
26 expense created by backdating, the following operating income/loss and net income/loss figures
27 in the 2001 Annual Report were overstated or understated, as the case may be: (a) the \$344
28 million operating loss and \$25 million net loss figures reported for fiscal year 2001 were

understated; (b) the \$522 million operating income and \$786 million net income figures reported for fiscal year 2000 were overstated; (c) the \$359 million operating income and \$601 million net income figures reported for fiscal year 1999 were overstated; (d) the \$309 million net income figure reported for fiscal year 1998 was overstated; and (d) the \$1.045 billion net loss figure reported for fiscal year 1997 was understated. In its 2006 Annual Report which contained the restatement of Apple's historical results necessitated by backdating, Apple did not state the incremental pre- or post-tax effects of the failure to properly account for the compensation expense created by backdating on its fiscal year 1997 financial results. In fiscal year 1998, Apple's undisclosed backdating caused a \$1 million increase in pre-tax compensation expense and had no effect on post-tax compensation expenses. In fiscal year 1999, Apple's undisclosed backdating caused \$8 million and \$6 million increases in pre-tax and after-tax compensation expenses, respectively; thus, Apple's reported operating and net income for fiscal year 1999 should have been \$351 million and \$595 million, respectively. In fiscal year 2000, Apple's undisclosed backdating caused \$13 million and \$9 million pre-tax and after-tax compensation expenses, respectively; thus, Apple's reported operating and net income for fiscal year 2000 should have been \$509 million and \$777 million, respectively. In fiscal year 2001, Apple's undisclosed backdating caused \$19 million and \$13 million in pre-tax and after-tax compensation expenses, respectively; thus, Apple's reported operating and net loss for fiscal year 2001 should have been \$363 million and \$38 million, respectively.

254. The Management's Discussion and Analysis of Financial Condition and Results of Operation ("MD&A") section of the 2001 Annual Report also contained statements that were rendered false and misleading by the failure to disclose backdating.

255. The MD&A section states that the Company was required to and did prepare its "financial statements and related disclosures in conformity with U.S. generally accepted accounting principles ["GAAP"]." The MD&A section further states the following regarding Selling, General and Administrative Expense ("SG&A"):

SG&A expenditures decreased \$28 million or 2% during 2001 as compared to 2000. Total quarterly SG&A expenditures have declined consistently throughout 2001 from a high in the first

quarter of \$297 million to a low in the fourth quarter of \$268 million. This trend reflects the Company's efforts to stabilize and selectively reduce recurring SG&A costs in light of lower net sales and to reduce discretionary marketing and advertising expenses. Given current economic conditions and the Company's continued strategic investments in new product development and its retail initiative, the Company is currently identifying additional opportunities to make appropriate cuts in SG&A costs.

Selling, general, and administrative expenditures increased 17% to \$1,166 million in 2000 as compared to 1999. These increases in total expenditures resulted from higher spending for promotional and marketing activities, increased sales expenses resulting from higher net sales, and an increase in combined sales, marketing, and general and administrative headcount from the end of 1999 to the end of 2000.

256. The MD&A section also contained a following chart which included SG&A for each of the prior three fiscal years (in millions except for percentages) as follows: (a) fiscal 2001 - \$1,138; (b) fiscal 2000 - \$1,166; and (c) fiscal 1999 - \$996. These statements are false and misleading because: (a) the Company failed to properly account for backdated stock options as alleged in detail herein; (b) the Company's financial statements did not conform to GAAP; and (c) the expenditures for SG&A depicted in the chart for fiscal years ended 2001, 2000 and 1999 were materially understated by failing to account for the "instant paper profits" generated by backdating as compensation expense. According to the Company's 2006 restatement, pre-tax operating expenses for fiscal years 2001, 2000 and 1999 were understated by \$19 million, \$13 million and \$8 million, respectively; therefore, the Company's SG&A for fiscal years 2001, 2000 and 1999 should have been (in millions) \$1,157, \$1,179 and \$1,004, respectively.

257. The MD&A section further states the following regarding the Company's use of stock options to recruit and retain employees:

The Company's success depends largely on its ability to attract and retain key personnel.

Much of the future success of the Company depends on the continued service and availability of skilled personnel, including those in technical, marketing and staff positions. Experienced personnel in the information technology industry are in high demand and competition for their talents is intense, especially in the Silicon Valley, where the majority of the Company's

employees are located. There can be no assurance that the company will be able to successfully attract and retain the key personnel it needs. Additionally, volatility or a lack of positive performance in the Company's stock price may adversely affect its ability to retain key employees.

258. This statement is false and misleading because it fails to disclose that Apple management was willing to and did materially mislead the investing public in order to enhance their own compensation and also because it failed to disclose that the Company used backdated stock options to recruit and/or retain employees.

8. 2002 Annual Report

259. The Company's Form 10-K for the fiscal year ended September 28, 2002 (filed with the SEC on December 19, 2002 and signed by Anderson, Jobs, Campbell, Drexler, Levinson and York and reviewed and/or commented upon by Heinen at a time when Heinen was chief legal officer of the Company (the "2002 Annual Report")) was materially false and misleading for the reasons discussed below.

260. The 2002 Annual Report includes a chart depicting option grants during fiscal year 2002 to Jobs as reflected in the table included earlier herein and states that "[a]ll options were granted at an exercise price equal to the fair market value based on the closing market value of Common Stock on the Nasdaq National Market on the date of grant." The Option Grants Chart is set forth below:

OPTION GRANTS IN LAST FISCAL YEAR

Individual Grants									
Name	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year(1)	Exercise or Base Price (\$/Sh)(2)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(3)				
					5% (\$)		10% (\$)		
Steven P. Jobs	7,500,000	32.27%	\$ 18.30	10/19/2011	\$ 86,315,788		\$ 218,741,153		
Fred D. Anderson	—	—	—	—	—		—		

264. In addition, the 2002 Annual Report includes a Summary Compensation Table that materially misstated the compensation of, and failed to disclose the illegal compensation received from the Company by, Jobs in fiscal years 2000 and 2002, and Anderson, Cook, Rubinstein and Tevanian in fiscal year 2001 as a result of their receipt of backdated stock options at less than fair market value on the date of grant. The Summary Compensation Table is set forth below:

SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Annual Compensation		Long-Term Compensation		All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Securities Underlying Options* (#)		
Steven P. Jobs Chief Executive Officer	2002	1	2,268,698	(1)	7,500,000	1,302,795 (1)
	2001	1	(1)	(1)	—	40,484,594 (1)
	2000	1	43,511,534		20,000,000	—
Fred D. Anderson Executive Vice President and Chief Financial Officer	2002	656,631	—		—	11,000 (2)
	2001	657,039	—		1,000,000	7,312 (2)
	2000	660,414	—		—	6,750 (2)
Timothy D. Cook Executive Vice President, Worldwide Sales and Operations	2002	563,829	—		—	8,025 (2)
	2001	452,219	500,000	(3)	1,000,000	7,875 (2)
	2000	451,673	—		—	6,352 (2)
Jonathan Rubinstein Senior Vice President, Hardware Engineering	2002	452,588	—		—	9,996 (2)
	2001	469,737	—		1,000,000	7,875 (2)
	2000	451,949	—		—	6,577 (2)
Avadis Tevanian, Jr. Ph.D Senior Vice President, Software Engineering	2002	492,212	—		—	10,700 (2)
	2001	460,873	500	(4)	1,000,000	10,200 (2)
	2000	451,673	—		—	10,200 (2)

265. The foregoing statements were false and misleading because Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the “dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered...” (17 C.F.R. § 229.402(b)(2)(iii)(B)), and Apple failed to include the non-cash compensation attributable to backdated options. Additionally, the Instructions to Item 402(b)(2)(iii)(A) and (B) further provide that the following items be disclosed in the Summary Compensation Table:

- (i) For stock or any other form of non-cash compensation, disclose the fair market value at the time the compensation is awarded, earned or paid.
- (ii) Above-market or preferential earnings on restricted stock, options, SARs or deferred compensation paid during the fiscal year or payable during that period...

- (iii) The dollar value of the difference between the price paid by a named executive officer for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise), and the fair market value of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant.

(*Id.*) In addition, the disclosures in the Summary Compensation Table of “Annual Compensation” and “Securities Underlying Options” are materially misleading because they omit the additional compensation received as a result of the backdated options.

266. Further, the Option Grants in Last Fiscal Year Table is materially misleading because it fails to include an additional column showing the market price on the date of the grant as required by Item 402(c)(2)(iv) even though options granted in fiscal year 2002 were backdated.

267. The 2002 Annual Report stated “[t]he Company measures compensation expense for its employee stock-based compensation plans using the intrinsic value method prescribed by [APB No. 25]....The Company has elected to follow APB No. 25.... Under...[APB No. 25], when the exercise price of the Company’s employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.” This statement is false and misleading. Since the market price of Apple shares on the true grant date exceeded the exercise price, Apple should have recognized the difference (*i.e.*, the instant paper profit or spread) as expense, but failed to do so. As a result, the Company’s statement that it followed APB No. 25 was false and misleading.

268. And because the Company did not properly account for the compensation expense created by backdating, the following operating income/loss and net income/loss figures in the 2002 Annual Report were overstated or understated, as the case may be: (a) the \$17 million operating income and \$65 million net income figures reported for fiscal year 2002 were overstated; (b) the \$344 million operating loss and \$25 million net loss figures reported for fiscal year 2001 were understated; (c) the \$522 million operating income and \$786 million net income figures reported for fiscal year 2000 were overstated; (d) the \$601 million net income figure reported for fiscal year 1999 was overstated; and (e) the \$309 million net income figure

1 reported for fiscal year 1998 was overstated. In its 2006 Annual Report which contained the
 2 restatement of Apple's historical results necessitated by backdating, Apple did not state the
 3 incremental pre- or post-tax effects of the failure to properly account for the compensation
 4 expense created by backdating on its fiscal year 1997 financial results. In fiscal year 1998,
 5 Apple's undisclosed backdating caused a \$1 million increase in pre-tax compensation expense
 6 and had no effect on post-tax compensation expenses. In fiscal year 1999, Apple's undisclosed
 7 backdating caused \$8 million and \$6 million increases in pre-tax and after-tax compensation
 8 expenses, respectively; thus, Apple's reported operating and net income for fiscal year 1999
 9 should have been \$351 million and \$595 million, respectively. In fiscal year 2000, Apple's
 10 undisclosed backdating caused \$13 million and \$9 million pre-tax and after-tax compensation
 11 expenses, respectively; thus, Apple's reported operating and net income for fiscal year 2000
 12 should have been \$509 million and \$777 million, respectively. In fiscal year 2001, Apple's
 13 undisclosed backdating caused \$19 million and \$13 million in pre-tax and after-tax
 14 compensation expenses, respectively; thus, Apple's reported operating and net loss for fiscal
 15 year 2001 should have been \$363 million and \$38 million, respectively. In fiscal year 2002,
 16 Apple's undisclosed backdating caused \$29 million and \$23 million in pre-tax and after-tax
 17 compensation expenses, respectively; thus, Apple's reported operating loss and net income for
 18 fiscal year 2002 should have been \$12 million and \$42 million, respectively.

19 269. The MD&A section of the 2002 Annual Report also contained statements that
 20 were rendered false and misleading by the failure to disclose backdating.

21 270. The MD&A section states that the Company was required to and did prepare its
 22 "financial statements and related disclosures in conformity with U.S. generally accepted
 23 accounting principles ["GAAP"]. The MD&A section further states the following regarding
 24 SG&A:

25 SG&A decreased \$27 million or 2% during 2002 as compared to
 26 2001. The decrease in SG&A in 2002 is primarily the result of
 27 lower discretionary spending on marketing and advertising
 28 expenses, decreased spending related to information systems, and
 benefits directly related to the Company's restructuring actions in
 2002 and 2001. These decreases were partially offset by higher
 sales expense in 2002 resulting from increased operating expenses
 associated with expansion of the Company's Retail segment.

SG&A expenditures decreased \$28 million or 2% during 2001 as compared to 2000. Declines in SG&A spending in both 2002 and 2001 reflect the Company's overall efforts to stabilize and selectively reduce recurring SG&A costs in light of lower net sales and to reduce discretionary marketing and advertising expenses. Given current economic conditions and the Company's continued strategic investments in new product development and its Retail segment, the Company is currently identifying additional opportunities to make appropriate reductions in SG&A costs.

271. The MD&A section also contained the following chart of operating expenses for each of the prior three fiscal years (in millions except for percentages):

	2002		2001		2000	
Research and development	\$	446	\$	430	\$	380
Percentage of net sales		8%		8%		5%
Selling, general, and administrative	\$	1,111	\$	1,138	\$	1,166
Percentage of net sales		19%		21%		15%

272. These statements are false and misleading because: (a) the Company failed to properly account for backdated stock options as alleged in detail herein; (b) the Company's financial statements did not conform to GAAP; and (c) the expenditures for SG&A depicted in the chart for fiscal years ended 2002, 2001 and 2000 were materially understated by failing to account for the "instant paper profits" generated by backdating as compensation expense. According to the Company's 2006 restatement, pre-tax operating expenses for fiscal years 2002, 2001 and 2000 were understated by \$29 million, \$19 million and \$13 million, respectively; therefore, the Company's SG&A for fiscal years 2002, 2001 and 2000 should have been (in millions) \$1,140, \$1,157 and \$1,179, respectively.

273. The MD&A section further states the following regarding the Company's use of stock options to recruit and retain employees:

The Company's success depends largely on its ability to attract and retain key personnel.

Much of the future success of the Company depends on the continued service and availability of skilled personnel, including those in technical, marketing and staff positions. Experienced personnel in the information technology industry are in high

1 demand and competition for their talents is intense, especially in
2 the Silicon Valley, where the majority of the Company's
3 employees are located. There can be no assurance that the
4 Company will be able to successfully attract and retain the key
5 personnel it needs. Additionally, volatility or a lack of positive
6 performance in the Company's stock price may adversely affect its
7 ability to retain key employees. As of September 28, 2002, a
8 substantial majority of the Company's outstanding employee stock
9 options were out-of-the-money.

10 274. This statement is false and misleading because it fails to disclose that Apple
11 management was willing to and did materially mislead the investing public in order to enhance
12 their own compensation and also because it failed to disclose that the Company used backdated
13 stock options to recruit and/or retain employees.

14 **9. 2003 Annual Report**

15 275. The Company's Form 10-K for the fiscal year ended September 27, 2003 (filed
16 with the SEC on December 19, 2003 and signed by Anderson, Jobs, Campbell, Drexler,
17 Levinson and York and reviewed and/or commented upon by Heinen at a time when Heinen
18 was chief legal officer of the Company) (the "2003 Annual Report")) was materially false and
19 misleading for the reasons discussed below.

20 276. The 2003 Annual Report disclosed that 7.5 million (not split-adjusted) shares
21 were granted to Jobs during fiscal year 2002. This statement was false and misleading because
22 it fails to disclose that these options were backdated.

23 277. Apple has now admitted that no Board meeting occurred on October 19, 2001
24 despite the bogus documentation falsely indicating that such a meeting took place. The true
25 grant date was December 18, 2001 which means the assigned exercise price should have been
26 \$21.01 -- Apple's December 18 closing price representing the fair market value of Apple's
27 shares on the true date of grant. The net result of the pretense that the grant of these options
28 was approved at an October 2001 board meeting is CEO Jobs was given an "instant paper
profit" in the amount of \$20,325,000 (*i.e.*, \$21.01 minus \$18.30 (the October 19th closing price)
multiplied times 7.5 million shares) that was never disclosed to shareholders.

1 278. The 2003 Annual Report also states:

2 In March 2003, Mr. Jobs voluntarily cancelled all of his
3 outstanding options, excluding those granted to him in his capacity
4 as a director. In March 2003, the Board awarded Mr. Jobs five
5 million [not split-adjusted] restricted shares of the Company's
6 Common Stock which generally vest in full on the third
7 anniversary of the grant date.

8 279. This statement is misleading because it fails to disclose that the five million
9 restricted shares (now ten million after adjustments for stock splits) were received by Jobs in
10 exchange for the backdated stock options discussed earlier herein. As alleged earlier herein, as
11 the result of the \$104,087,000 in "instant paper profits" Jobs received from backdated options,
12 he received at least an additional 630,000 shares of restricted stock that he would not have
13 received had the cancelled options not been backdated. At prices prevailing in or about the
14 date of the 2003 Annual Report, these extra 630,000 shares had a value in excess of \$50
15 million. The 2003 Annual Report fails to disclose these facts.

16 280. In addition, the 2003 Annual Report includes a Summary Compensation Table
17 that materially misstated the compensation of, and failed to disclose the illegal compensation
18 received from the Company by, Jobs in fiscal years 2000 and 2002, and Anderson, Cook,
19 Rubinstein and Tevanian in fiscal year 2001 as a result of their receipt of backdated stock
20 options at less than fair market value on the date of grant. The Summary Compensation Table
21 is set forth below:
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SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Annual Compensation		Long-Term Compensation		All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Restricted Stock Award (\$)	Securities Underlying Options* (#)	
Steven P. Jobs Chief Executive Officer	2003	1	—	74,750,000(1)	—	—
	2002	1	2,268,698(2)	—	7,500,000(1)	1,302,795(2)
	2001	1	43,511,534(2)	—	—	40,484,594(2)
Fred D. Anderson Executive Vice President and Chief Financial Officer	2003	656,631	—	—	—	11,450(3)
	2002	656,631	—	—	—	11,000(3)
	2001	657,039	—	—	1,000,000	7,312(3)
Timothy D. Cook Executive Vice President, Worldwide	2003	617,673	—	—	—	9,929(3)
	2002	563,829	—	—	—	8,025(3)
	2001	452,219	500,000	—	1,000,000	7,875(3)
Ronald B. Johnson Senior Vice President, Detail	2003	452,404	1,500,000	—	—	—
	2002	452,404	—	—	300,000	—
	2001	452,429	—	—	300,000	—
Avadis Tevanian, Jr. Ph.D Senior Vice President, Chief Software Technology Officer	2003	456,731	—	—	—	11,962
	2002	492,212	—	—	—	10,700(3)
	2001	460,873	500	—	1,000,000	10,200(3)

281. The foregoing statements were false and misleading because Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the “dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered...” (17 C.F.R. § 229.402(b)(2)(iii)(B)), and Apple failed to include the non-cash compensation attributable to backdated options. Additionally, the Instructions to Item

1 402(b)(2)(iii)(A) and (B) further provide that the following items be disclosed in the Summary
 2 Compensation Table:

- 3 (i) For stock or any other form of non-cash compensation, disclose the fair
 4 market value at the time the compensation is awarded, earned or paid.
- 5 (ii) Above-market or preferential earnings on restricted stock, options, SARs
 6 or deferred compensation paid during the fiscal year or payable during that
 7 period...
- 8 (iii) The dollar value of the difference between the price paid by a named
 9 executive officer for any security of the registrant or its subsidiaries
 purchased from the registrant or its subsidiaries (through deferral of salary
 or bonus, or otherwise), and the fair market value of such security at the
 date of purchase, unless that discount is available generally, either to all
 security holders or to all salaried employees of the registrant.

10 (*Id.*) In addition, the disclosures in the Summary Compensation Table of “Annual
 11 Compensation” and “Securities Underlying Options” are materially misleading because they
 12 omit the additional compensation received as a result of the backdated options.

13 282. The 2003 Annual Report stated “[t]he Company measures compensation
 14 expense for its employee stock-based compensation plans using the intrinsic value method
 15 prescribed by [APB No. 25]....The Company has elected to follow APB No. 25....
 16 Under...[APB No. 25], when the exercise price of the Company’s employee stock options
 17 equals the market price of the underlying stock on the date of grant, no compensation expense
 18 is recognized.” This statement is false and misleading. Since the market price of Apple shares
 19 on the true grant date exceeded the exercise price, Apple should have recognized the difference
 20 (*i.e.*, the instant paper profit or spread) as expense, but failed to do so. As a result, the
 21 Company’s statement that it followed APB No. 25 was false and misleading.

22 283. And because the Company did not properly account for the compensation
 23 expense created by backdating, the following operating income/loss and net income/loss figures
 24 in the 2003 Annual Report were overstated or understated, as the case may be: (a) the \$1
 25 million operating loss figure reported for fiscal year 2003 was understated and the \$69 million
 26 net income figure reported for fiscal year 2003 was overstated; (b) the \$17 million operating
 27 income and \$65 million net income figures reported for fiscal year 2002 were overstated; (c)
 28 the \$344 million operating loss and \$25 million net loss figures reported for fiscal year 2001

1 were understated; (d) the \$786 million net income figure reported for fiscal year 2000 was
2 overstated; and (e) the \$601 million net income figure reported for fiscal year 1999 was
3 overstated. In fiscal year 1998, Apple's undisclosed backdating caused a \$1 million increase in
4 pre-tax compensation expense and had no effect on post-tax compensation expenses. In fiscal
5 year 1999, Apple's undisclosed backdating caused \$8 million and \$6 million increases in pre-
6 tax and after-tax compensation expenses, respectively; thus, Apple's reported operating and net
7 income for fiscal year 1999 should have been \$351 million and \$595 million, respectively. In
8 fiscal year 2000, Apple's undisclosed backdating caused \$13 million and \$9 million pre-tax and
9 after-tax compensation expenses, respectively; thus, Apple's reported operating and net income
10 for fiscal year 2000 should have been \$509 million and \$777 million, respectively. In fiscal
11 year 2001, Apple's undisclosed backdating caused \$19 million and \$13 million in pre-tax and
12 after-tax compensation expenses, respectively; thus, Apple's reported operating and net loss for
13 fiscal year 2001 should have been \$363 million and \$38 million, respectively. In fiscal year
14 2002, Apple's undisclosed backdating caused \$29 million and \$23 million in pre-tax and after-
15 tax compensation expenses, respectively; thus, Apple's reported operating loss and net income
16 for fiscal year 2002 should have been \$12 million and \$42 million, respectively. In fiscal year
17 2003, Apple's undisclosed backdating caused \$16 million and \$12 million in pre-tax and after-
18 tax compensation expenses, respectively; thus, Apple's reported operating loss and net income
19 for fiscal year 2003 should have been \$17 million and \$57 million, respectively.

20 284. The MD&A section of the 2003 Annual Report also contained statements that
21 were rendered false and misleading by the failure to disclose backdating.

22 285. The MD&A section states that the Company was required to and did prepare its
23 "financial statements and related disclosures in conformity with U.S. generally accepted
24 accounting principles ["GAAP"]. The MD&A section further states the following regarding
25 SG&A:

26 SG&A increased \$103 million or 9% during 2003 as compared to
27 2002 due primarily to the Company's continued expansion of the
28 Retail segment and increases in headcount. The overall increase
was partially offset by a decrease in current year discretionary
spending on marketing and advertising and by savings resulting
from the 2003 and 2002 restructuring activities described below.

SG&A decreased \$29 million or 3% during 2002 as compared to 2001. The decrease in SG&A in 2002 was primarily the result of lower discretionary spending on marketing and advertising expenses, decreased spending related to information systems, and benefits directly related to the Company's restructuring actions in 2002 and 2001. The decreases were partially offset by higher sales expense in 2002 resulting from increased operating expenses associated with expansion of the Company's Retail segment.

286. The MD&A section also contained the following chart of operating expenses for each of the prior three fiscal years (in millions except for percentages):

	2003		2002		2001	
Research and development	\$	471	\$	446	\$	430
Percentage of net sales		8%		8%		8%
Selling, general, and administrative	\$	1,212	\$	1,109	\$	1,138
Percentage of net sales		20%		19%		21%
Restructuring costs	\$	26	\$	30		—
Purchased in-process research and development		—	\$	1	\$	11

287. These statements are false and misleading because: (a) the Company failed to properly account for backdated stock options as alleged in detail herein; (b) the Company's financial statements did not conform to GAAP; and (c) the expenditures for SG&A depicted in the chart for fiscal years ended 2003, 2002 and 2001 were materially understated by failing to account for the "instant paper profits" generated by backdating as compensation expense. According to the Company's 2006 restatement, pre-tax operating expenses for fiscal years 2003, 2002 and 2001 were understated by \$16 million, \$29 million and \$19 million, respectively; therefore, the Company's SG&A for fiscal years 2003, 2002 and 2001 should have been (in millions) \$1,228, \$1,140 and \$1,157, respectively.

288. The MD&A section further states the following regarding the Company's use of stock options to recruit and retain employees:

1 The Company's success depends largely on its ability to attract and
2 retain key personnel.

3 Much of the future success of the Company depends on the
4 continued service and availability of skilled personnel, including
5 its Chief Executive Officer, members of its executive team, and
6 those in technical, marketing and staff positions. Experienced
7 personnel in the information technology industry are in high
8 demand and competition for their talents is intense, especially in
9 the Silicon Valley, where the majority of the Company's
10 employees are located. The Company has relied on its ability to
11 grant stock options as one mechanism for recruiting and retaining
12 this highly skilled talent. Potential accounting regulations requiring
13 the expensing of stock options may impair the Company's future
14 ability to provide these incentives without incurring significant
15 compensation costs. There can be no assurance that the Company
16 will continue to successfully attract and retain key personnel.

17 289. This statement is false and misleading because it fails to disclose that Apple
18 management was willing to and did materially mislead the investing public in order to enhance
19 their own compensation and also because it failed to disclose that the Company used backdated
20 stock options to recruit and/or retain employees.

21 **10. 2004 Annual Report**

22 290. The Company's Form 10-K for the fiscal year ended September 25, 2004 (filed
23 with the SEC on December 3, 2004 and signed by Anderson, Jobs, Campbell, Drexler,
24 Levinson and York and reviewed and/or commented upon by Heinen at a time when Heinen
25 was chief legal officer of the Company) (the "2004 Annual Report")) was materially false and
26 misleading for the reasons discussed below.

27 291. As previously alleged with respect to defendant Jobs, the 2004 Annual Report
28 disclosed that 7.5 million (not split-adjusted) shares were granted to Jobs during fiscal year
2002. This statement was false and misleading because it fails to disclose that these options
were backdated.

29 292. Apple has now admitted that no Board meeting occurred on October 19, 2001
30 despite the bogus documentation falsely indicating that such a meeting took place. The true
31 grant date was December 18, 2001 which means the assigned exercise price should have been
32 \$21.01 -- Apple's December 18 closing price representing the fair market value of Apple's
33 shares on the true date of grant. The net result of the pretense that the grant of these options

1 was approved at an October 2001 board meeting is CEO Jobs was given an “instant paper
2 profit” in the amount of \$20,325,000 (*i.e.*, \$21.01 minus \$18.30 (the October 19th closing price)
3 multiplied times 7.5 million shares) that was never disclosed to shareholders.

4 293. The 2004 Annual Report also states:

5 In March 2003, Mr. Jobs voluntarily cancelled all of his
6 outstanding options, excluding those granted to him in his capacity
7 as a director. In March 2003, the Board awarded Mr. Jobs five
8 million [not split-adjusted] restricted shares of the Company’s
Common Stock which generally vest in full on the third
anniversary of the grant date.

9 294. The 2004 Annual Report further states:

10 On March 19, 2003, the Company entered into an Option
11 Cancellation and Restricted Stock Award Agreement (the
12 Agreement) with Mr. Steven P. Jobs, its CEO. The Agreement
13 cancelled stock option awards for the purchase of 27.5 million
14 shares of the Company’s common stock previously granted to Mr.
15 Jobs in 2000 and 2001. Mr. Jobs retained options to purchase
16 60,000 shares of the Company’s common stock granted in August
of 1997 in his capacity as a member of the Company’s Board of
Directors, prior to becoming the Company’s CEO. The Agreement
replaced the cancelled options with a restricted stock award of 5
million shares [not split-adjusted] of the Company’s common
stock....

17 295. These statements are misleading because they fail to disclose that the five
18 million restricted shares (now ten million after adjustments for stock splits) were received by
19 Jobs in exchange for the backdated stock options discussed earlier herein. As alleged earlier
20 herein, it is estimated that as the result of the \$104,087,000 in “instant paper profits” Jobs
21 received from backdated options, he received at least an additional 630,000 shares of restricted
22 stock that he would not have received had the cancelled options not been backdated. At prices
23 prevailing in or about the date of the 2003 Annual Report, these extra 630,000 shares had a
24 value in excess of \$50 million. The 2004 Annual Report fails to disclose these facts.

25 296. In addition, the 2004 Annual Report includes a Summary Compensation Table
26 that materially misstated the compensation of, and failed to disclose the illegal compensation
27 received from the Company by, Jobs in fiscal year 2002 as a result of his receipt of backdated
28 stock options at less than fair market value and in fiscal year 2003 as a result of his receipt of

restricted stock in exchange for backdated stock options at less than fair market value on the date of grant. The Summary Compensation Table is set forth below:

SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Annual Compensation		Long-Term Compensation		All Other Compensation	
		Salary (\$)	Bonus (\$)	Restricted Stock Award (\$)	Securities Underlying Options* (#)	All Other Compensation (\$)	
Steven P. Jobs Chief Executive Officer	2004	1	—	—	—	—	—
	2003	1	—	74,750,000(1)	—	—	—
	2002	1	2,268,698(2)	—	7,500,000(1)	1,302,795(2)	—
Timothy D. Cook Executive Vice President, Worldwide Sales and Operations	2004	602,632	—	7,650,000(3)	—	12,588(4)	—
	2003	617,673	—	—	—	9,929(4)	—
	2002	563,829	—	—	—	8,025(4)	—
Ronald B. Johnson Senior Vice President, Retail	2004	484,836	1,500,000	6,375,000(3)	—	—	—
	2003	452,404	1,500,000	—	—	—	—
	2002	452,404	—	—	300,000	—	—
Jonathan Rubinstein Senior Vice President, iPod Division	2004	485,216	—	6,375,000(3)	—	12,300(4)	—
	2003	452,939	—	—	—	11,986(4)	—
	2002	452,558	—	—	—	9,996(4)	—
Avadis Tevanian, Jr. Ph.D Senior Vice President, Chief Software Technology Officer	2004	469,681	1,000	5,100,000(3)	—	12,338(4)	—
	2003	456,731	—	—	—	11,962(4)	—
	2002	492,212	—	—	—	10,700(4)	—

297. The foregoing statements were false and misleading because Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the “dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered...” (17 C.F.R. § 229.402(b)(2)(iii)(B)), and Apple failed to include the non-cash compensation attributable to backdated options. Additionally, the Instructions to Item

1 402(b)(2)(iii)(A) and (B) further provide that the following items be disclosed in the Summary
 2 Compensation Table:

- 3 (i) For stock or any other form of non-cash compensation, disclose the fair
 4 market value at the time the compensation is awarded, earned or paid.
- 5 (ii) Above-market or preferential earnings on restricted stock, options, SARs
 6 or deferred compensation paid during the fiscal year or payable during that
 7 period...
- 8 (iii) The dollar value of the difference between the price paid by a named
 9 executive officer for any security of the registrant or its subsidiaries
 purchased from the registrant or its subsidiaries (through deferral of salary
 or bonus, or otherwise), and the fair market value of such security at the
 date of purchase, unless that discount is available generally, either to all
 security holders or to all salaried employees of the registrant.

10 (*Id.*) In addition, the disclosures in the Summary Compensation Table of “Annual
 11 Compensation” and “Securities Underlying Options” are materially misleading because they
 12 omit the additional compensation received as a result of the backdated options.

13 298. The 2004 Annual Report stated “[t]he Company measures compensation
 14 expense for its employee stock-based compensation plans using the intrinsic value method
 15 prescribed by [APB No. 25]....The Company has elected to follow APB No. 25....
 16 Under...[APB No. 25], when the exercise price of the Company’s employee stock options
 17 equals the market price of the underlying stock on the date of grant, no compensation expense
 18 is recognized.” This statement is false and misleading. Since the market price of Apple shares
 19 on the true grant date exceeded the exercise price, Apple should have recognized the difference
 20 (*i.e.*, the instant paper profit or spread) as expense, but failed to do so. As a result, the
 21 Company’s statement that it followed APB No. 25 was false and misleading.

22 299. And because the Company did not properly account for the compensation
 23 expense created by backdating, the following operating income/loss and net income/loss figures
 24 in the 2004 Annual Report were overstated or understated, as the case may be: (a) the \$326
 25 million operating income and \$276 million net income figures reported for fiscal year 2004
 26 were overstated; (b) the \$1 million operating loss figure reported for fiscal year 2003 was
 27 understated and the \$69 million net income figure reported for fiscal year 2003 was overstated;
 28 (c) the \$17 million operating income and \$65 million net income figures reported for fiscal year

2002 were overstated; (d) the \$25 million net loss figure reported for fiscal year 2001 was understated; and (e) the \$786 million net income figure reported for fiscal year 2000 was overstated. In fiscal year 1998, Apple's undisclosed backdating caused a \$1 million increase in pre-tax compensation expense and had no effect on post-tax compensation expenses. In fiscal year 1999, Apple's undisclosed backdating caused \$8 million and \$6 million increases in pre-tax and after-tax compensation expenses, respectively; thus, Apple's reported operating and net income for fiscal year 1999 should have been \$351 million and \$595 million, respectively. In fiscal year 2000, Apple's undisclosed backdating caused \$13 million and \$9 million pre-tax and after-tax compensation expenses, respectively; thus, Apple's reported operating and net income for fiscal year 2000 should have been \$509 million and \$777 million, respectively. In fiscal year 2001, Apple's undisclosed backdating caused \$19 million and \$13 million in pre-tax and after-tax compensation expenses, respectively; thus, Apple's reported operating and net loss for fiscal year 2001 should have been \$363 million and \$38 million, respectively. In fiscal year 2002, Apple's undisclosed backdating caused \$29 million and \$23 million in pre-tax and after-tax compensation expenses, respectively; thus, Apple's reported operating loss and net income for fiscal year 2002 should have been \$12 million and \$42 million, respectively. In fiscal year 2003, Apple's undisclosed backdating caused \$16 million and \$12 million in pre-tax and after-tax compensation expenses, respectively; thus, Apple's reported operating loss and net income for fiscal year 2003 should have been \$17 million and \$57 million, respectively. In fiscal year 2004, Apple's undisclosed backdating caused \$13 million and \$10 million in pre-tax and after-tax compensation expenses, respectively; thus, Apple's reported operating loss and net income for fiscal year 2004 should have been \$313 million and \$266 million, respectively.

300. The MD&A section of the 2004 Annual Report also contained statements that were rendered false and misleading by the failure to disclose backdating.

301. The MD&A section states that the Company was required to and did prepare its "financial statements and related disclosures in conformity with U.S. generally accepted accounting principles ["GAAP"]." The MD&A section further states the following regarding SG&A:

Expenditures for SG&A increased \$209 million or 17% during 2004 compared to 2003. These increases are due primarily to the Company's continued expansion of its Retail segment in both domestic and international markets, a current year increase in discretionary spending on marketing and advertising, an increase in amortization costs associated with restricted stock compensation, and higher direct and channel selling expenses resulting from the increase in net sales and employee salary merit increases. SG&A as a percentage of total net sales in 2004 was 17%, down from 20% in 2003. This decrease is due to the increase of 33% in total net sales of the Company for fiscal 2004, reflecting leverage on the Company's fixed costs.

302. The MD&A section also contained the following chart of operating expenses for each of the prior three fiscal years (in millions except for percentages):

	2004		2003		2002	
Research and development	\$	489	\$	471	\$	446
Percentage of net sales		6%		8%		8%
Selling, general, and administrative	\$	1,421	\$	1,212	\$	1,109
Percentage of net sales		17%		20%		19%
Restructuring costs	\$	23	\$	26	\$	30
Purchased in-process research		—		—	\$	1

303. These statements are false and misleading because: (a) the Company failed to properly account for backdated stock options as alleged in detail herein; (b) the Company's financial statements did not conform to GAAP; and (c) the expenditures for SG&A depicted in the chart for fiscal years ended 2004, 2003 and 2002 were materially understated by failing to account for the "instant paper profits" generated by backdating as compensation expense. According to the Company's 2006 restatement, pre-tax operating expenses for fiscal years 2004, 2003 and 2002 were understated by \$13 million, \$16 million and \$29 million, respectively; therefore, the Company's SG&A for fiscal years 2004, 2003 and 2002 should have been (in millions) \$1,434, \$1,228 and \$1,140, respectively.

1 304. The MD&A section further states the following regarding the Company's use of
2 stock options to recruit and retain employees:

3 The Company's success depends largely on its ability to attract and
4 retain key personnel.

5 Much of the future success of the Company depends on the
6 continued service and availability of skilled personnel, including
7 its Chief Executive Officer, members of its executive team, and
8 those in technical, marketing and staff positions. Experienced
9 personnel in the information technology industry are in high
10 demand and competition for their talents is intense, especially in
11 the Silicon Valley, where the majority of the Company's key
employees are located. The Company has relied on its ability to
grant stock options as one mechanism for recruiting and retaining
this highly skilled talent. Potential accounting regulations requiring
the expensing of stock options may impair the Company's future
ability to provide these incentives without incurring significant
compensation costs. There can be no assurance that the Company
will continue to successfully attract and retain key personnel.

12 305. This statement is false and misleading because it fails to disclose that Apple
13 management was willing to and did materially mislead the investing public in order to enhance
14 their own compensation and also because it failed to disclose that the Company used backdated
15 stock options to recruit and/or retain employees.

16 **11. 2005 Annual Report**

17 306. The Company's Form 10-K for the fiscal year ended September 24, 2005 (filed
18 with the SEC on December 1, 2005 and signed by Anderson, Jobs, Campbell, Drexler,
19 Levinson and York and reviewed and/or commented upon by Heinen at a time when Heinen
20 was chief legal officer of the Company) (the "2005 Annual Report")) was materially false and
21 misleading for the reasons discussed below.

22 307. The 2005 Annual Report states:

23 In March 2003, Mr. Jobs voluntarily cancelled all of his
24 outstanding options, excluding those granted to him in his capacity
25 as a Director. In March 2003, the Board awarded Mr. Jobs 10
26 million (split-adjusted) restricted shares of the Company's
Common Stock that generally vest in full on the third anniversary
27 of the grant date.
28

308. The 2005 Annual Report further states:

On March 19, 2003, the Company entered into an Option Cancellation and Restricted Stock Award Agreement (the Agreement) with Mr. Steven P. Jobs, its CEO. The Agreement cancelled stock option awards for the purchase of 55 million shares of the Company's common stock previously granted to Mr. Jobs in 2000 and 2001. Mr. Jobs retained options to purchase 120,000 shares of the Company's common stock granted in August of 1997 in his capacity as a member of the Company's Board of Directors, prior to becoming the Company's CEO. The Agreement replaced the cancelled options with a restricted stock award of 10 million shares of the Company's common stock....

* * *

The Company determined the value of the restricted stock award in accordance with APB Opinion No. 25....

309. These statements are misleading because they fail to disclose that the ten million (split-adjusted) shares were received by Jobs in exchange for the backdated stock options discussed earlier herein. As alleged earlier herein, it is estimated that as the result of the \$104,087,000 in “instant paper profits” Jobs received from backdated options, he received at least an additional 630,000 shares of restricted stock that he would not have received had the cancelled options not been backdated. At prices prevailing in or about the date of the 2003 Annual Report, these extra 630,000 shares had a value in excess of \$50 million. The 2005 Annual Report fails to disclose these facts.

310. In addition, the 2005 Annual Report includes a Summary Compensation Table that materially misstated the compensation of, and failed to disclose the illegal compensation received from the Company by, Jobs in fiscal year 2003 as a result of his receipt of restricted stock in exchange for backdated stock options at less than fair market value on the date of grant. The Summary Compensation Table is set forth below:

SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Annual Compensation		Long-Term Compensation		All Other Compensation	
		Salary (\$)	Bonus (\$)	Restricted Stock Award (\$)	Securities Underlying Options* (#)	Compensation (\$)	
Steven P. Jobs	2005	1	—	—	—	—	
Chief Executive Officer	2004	1	—	—	—	—	
	2003	1	—	74,750,000(1)	—	—	
Timothy D. Cook	2005	602,434	600,239	—	—	12,600(3)	
Chief Operating Officer	2004	602,632	—	7,650,000(2)	—	12,588(3)	
	2003	617,673	—	—	—	9,929(3)	
Ronald B. Johnson	2005	552,795	550,202	—	—	—	
Senior Vice President, Retail	2004	484,836	1,500,000	6,375,000(2)	—	—	
	2003	452,404	1,500,000	—	—	—	
Peter Oppenheimer	2005	552,189	550,202	—	—	21,092(3)	
Senior Vice President	2004	450,739	—	6,375,000(2)	—	3,808(3)	
Chief Financial Officer	2003	402,237	—	—	—	—	
Jonathan Rubinstein	2005	552,795	551,239	—	—	12,600(3)	
Senior Vice	2004	485,216	—	6,375,000(2)	—	12,300(3)	
iPod Division	2003	452,939	—	—	—	11,986(3)	

311. The foregoing statements were false and misleading because Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the “dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered ...” (17 C.F.R. § 229.402(b)(2)(iii)(B)), and Apple failed to include the non-cash compensation attributable to backdated options. Additionally, the Instructions to Item 402(b)(2)(iii)(A) and (B) further provide that the following items be disclosed in the Summary Compensation Table:

- (i) For stock or any other form of non-cash compensation, disclose the fair market value at the time the compensation is awarded, earned or paid.

(ii) Above-market or preferential earnings on restricted stock, options, SARs or deferred compensation paid during the fiscal year or payable during that period...

(iii) The dollar value of the difference between the price paid by a named executive officer for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise), and the fair market value of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant.

(*Id.*) In addition, the disclosures in the Summary Compensation Table of “Annual Compensation” and “Securities Underlying Options” are materially misleading because they omit the additional compensation received as a result of the backdated options.

312. The 2005 Annual Report stated “[t]he Company currently measures compensation expense for its employee stock-based compensation plans using the intrinsic value method prescribed by [APB No. 25]...Under...[APB No. 25], when the exercise price of the Company’s employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.” This statement is false and misleading. Since the market price of Apple shares on the true grant date exceeded the exercise price, Apple should have recognized the difference (*i.e.*, the instant paper profit or spread) as expense, but failed to do so. As a result, Jobs should not have received less restricted stock than he actually did in exchange for the backdated and options and, consequently, the Company’s statement that it followed APB No. 25 was false and misleading.

313. Because the Company did not properly account for the compensation expense created by backdating, the following operating income/loss and net income/loss figures in the 2005 Annual Report were overstated or understated, as the case may be: (a) the \$1.650 billion operating income and \$1.335 billion net income figures reported for fiscal year 2005 were overstated; (b) the \$326 million operating income and \$276 million net income figures reported for fiscal year 2004 were overstated; (c) the \$1 million operating loss figure reported for fiscal year 2003 was understated and the \$69 million net income figure reported for fiscal year 2003 was overstated; (d) the \$65 million net income figure reported for fiscal year 2002 was overstated; and (e) the \$25 million net loss figure reported for fiscal year 2001 was understated.

1 In fiscal year 2001, Apple's undisclosed backdating caused \$19 million and \$13 million in pre-
2 tax and after-tax compensation expenses, respectively; thus, Apple's reported operating and net
3 loss for fiscal year 2001 should have been \$363 million and \$38 million, respectively. In fiscal
4 year 2002, Apple's undisclosed backdating caused \$29 million and \$23 million in pre-tax and
5 after-tax compensation expenses, respectively; thus, Apple's reported operating loss and net
6 income for fiscal year 2002 should have been \$12 million and \$42 million, respectively. In
7 fiscal year 2003, Apple's undisclosed backdating caused \$16 million and \$12 million in pre-tax
8 and after-tax compensation expenses, respectively; thus, Apple's reported operating loss and
9 net income for fiscal year 2003 should have been \$17 million and \$57 million, respectively. In
10 fiscal year 2004, Apple's undisclosed backdating caused \$13 million and \$10 million in pre-tax
11 and after-tax compensation expenses, respectively; thus, Apple's reported operating loss and
12 net income for fiscal year 2004 should have been \$313 million and \$266 million, respectively.
13 In fiscal year 2005, Apple's undisclosed backdating caused \$7 million and \$7 million in pre-tax
14 and after-tax compensation expenses, respectively; thus, Apple's reported operating income
15 and net income for fiscal year 2005 should have been \$1.58 billion and \$1.38 billion,
16 respectively.

17 314. The MD&A section of the 2005 Annual Report also contained statements that
18 were rendered false and misleading by the failure to disclose backdating.

19 315. The MD&A section states that the Company was required to and did prepare its
20 "financial statements and related disclosures in conformity with U.S. generally accepted
21 accounting principles ["GAAP"]. The MD&A section further states the following regarding
22 SG&A:

23 Expenditures for SG&A increased \$438 million or 31% during
24 2005 compared to 2004. These increases are due primarily to the
25 Company's continued expansion of its Retail segment in both
26 domestic and international markets, a current year increase in
27 discretionary spending on marketing and advertising, and higher
28 direct and channel selling expenses resulting from the increase in
net sales and employee salary merit increases. SG&A as a
percentage of total net sales in 2005 was 13%, down from 17% in
2004, which is due to the increase in total net sales of 68% for the
Company during 2005.

316. The MD&A section also contained the following chart of operating expenses for each of the prior three fiscal years (in millions except for percentages):

	September 24,			September 25,			September 27,		
	2005			2004			2003		
Research and development	\$	534		\$	489		\$	471	
Percentage of net sales		4%			6%			8%	
Selling, general, and administrative expenses	\$	1,859		\$	1,421		\$	1,212	
Percentage of net sales		13%			17%			20%	
Restructuring costs	\$	—		\$	23		\$	26	

317. These statements are false and misleading because: (a) the Company failed to properly account for backdated stock options as alleged in detail herein; (b) the Company's financial statements did not conform to GAAP; and (c) the expenditures for SG&A depicted in the chart for fiscal years ended 2005, 2004 and 2003 were materially understated by failing to account for the "instant paper profits" generated by backdating as compensation expense. According to the Company's 2006 restatement, pre-tax operating expenses for fiscal years 2005, 2004 and 2003 were understated by \$7million, \$13 million and \$16 million, respectively; therefore, the Company's SG&A for fiscal years 2005, 2004 and 2004 should have been (in millions) \$1,866, \$1,434 and \$1,228, respectively.

318. The MD&A section further states the following regarding the Company's use of stock options to recruit and retain employees:

The Company's success depends largely on its ability to attract and retain key personnel.

Much of the future success of the Company depends on the continued service and availability of skilled personnel, including its Chief Executive Officer, members of its executive team, and those in technical, marketing and staff positions. Experienced personnel in the information technology industry are in high demand and competition for their talents is intense, especially in the Silicon Valley, where the majority of the Company's key employees are located. The Company has relied on its ability to grant stock options as one mechanism for recruiting and retaining this highly skilled talent. Recent accounting regulations requiring

1 the expensing of stock options will impair the Company's future
2 ability to provide these incentives without incurring significant
3 compensation costs. There can be no assurance that the Company
4 will continue to successfully attract and retain key personnel.

5 319. This statement is false and misleading because it fails to disclose that Apple
6 management was willing to and did materially mislead the investing public in order to enhance
7 their own compensation and also because it failed to disclose that the Company used backdated
8 stock options to recruit and/or retain employees.

9 **C. QUARTERLY REPORTS**

10 320. During the Class Period, Apple published numerous false and misleading
11 statements in its quarterly reports earnings releases which were relied upon by Class Members
12 and which cause Apple's stock price to be materially inflated.

13 **1. Quarterly Reports Filed in 2001**

14 321. The Company's Form 10-Q for the period ended December 29, 2001 (filed with
15 the SEC on February 11, 2002 and signed by Anderson and reviewed and/or commented upon
16 by Heinen at a time when Heinen was chief legal officer of the Company (the "December 29,
17 2001 Quarterly Report")) was materially false and misleading for the reasons discussed below.

18 322. The December 29, 2001 Quarterly Report conceals the backdating of options by
19 Apple and fails to disclose the compensation expenses that should have been recorded under
20 GAAP. The December 29, 2001 Quarterly Report states that: (a) operating income (loss) for
21 the three months ended December 29, 2001 and December 30, 2000, was (\$4 million) and
22 (\$420 million), respectively; and (b) net income (loss) for the three months ended December
23 29, 2001 and December 30, 2000 was \$38 million and (\$195 million), respectively. These
24 results are false and misleading because they fail to account for compensation expenses created
25 by backdating that reduced the actual operating and net income (or increased the actual
26 operating or net loss); the precise amounts are known only to defendants. In its 2006 Annual
27 Report, which contained the restatement of Apple's historical results necessitated by
28 backdating, Apple did not state the incremental pre-or post-tax effects of the failure to properly
account for the compensation expense created by backdating on these quarterly results.

2. Quarterly Reports Filed in 2002

323. The Company's Form 10-Q for the period ended March 30, 2002 (filed with the SEC on May 14, 2002 and signed by Anderson and reviewed and/or commented upon by Heinen at a time when Heinen was chief legal officer of the Company (the "March 30, 2002 Quarterly Report")) was materially false and misleading for the reasons discussed below.

324. The March 30, 2002 Quarterly Report conceals the backdating of options by Apple and fails to disclose the compensation expenses that should have been recorded under GAAP. The March 30, 2002 Quarterly Report states that: (a) operating income (loss) for the three months ended March 30, 2002 and March 31, 2001, was \$28 million and (\$8 million), respectively; (b) operating income (loss) for the six months ended March 30, 2002 and March 31, 2002 was \$24 million and (\$428 million), respectively; (c) net income (loss) for the three months ended March 30, 2002 and March 31, 2001 was \$40 million and \$43 million, respectively; and (d) net income (loss) for the six months ended March 30, 2002 and March 31, 2001 was \$78 million and (\$152 million), respectively. These results are false and misleading because they fail to account for compensation expenses created by backdating that reduced the actual operating and net income (or increased the actual operating or net loss); the precise amounts are known only to defendants. In its 2006 Annual Report, which contained the restatement of Apple's historical results necessitated by backdating, Apple did not state the incremental pre-or post-tax effects of the failure to properly account for the compensation expense created by backdating on these quarterly results.

325. The Company's Form 10-Q for the period ended June 29, 2002 (filed with the SEC on August 9, 2002 and signed by Anderson and reviewed and/or commented upon by Heinen at a time when Heinen was chief legal officer of the Company (the "June 29, 2002 Quarterly Report")) was materially false and misleading for the reasons discussed below.

326. The June 29, 2002 Quarterly Report conceals the backdating of options by Apple and fails to disclose the compensation expenses that should have been recorded under GAAP. The June 29, 2002 Quarterly Report states that: (a) operating income (loss) for the three months ended June 29, 2002 and June 30, 2001, was \$13 million and \$31 million,

1 respectively; (b) operating income (loss) for the nine months ended June 29, 2002 and June 30,
2 2001 was \$37 million and (\$397 million), respectively; (c) net income (loss) for the three
3 months ended June 29, 2002 and June 30, 2001 was \$32 million and \$61 million, respectively;
4 and (d) net income (loss) for the nine months ended June 29, 2002 and June 30, 2001 was \$110
5 million and (\$91 million), respectively. These results are false and misleading because they fail
6 to account for compensation expenses created by backdating that reduced the actual operating
7 and net income (or increased the actual operating or net loss); the precise amounts are known
8 only to defendants. In its 2006 Annual Report, which contained the restatement of Apple's
9 historical results necessitated by backdating, Apple did not state the incremental pre-or post-tax
10 effects of the failure to properly account for the compensation expense created by backdating
11 on these quarterly results.

12 **3. Quarterly Reports Filed in 2003**

13 327. The Company's Form 10-Q for the period ended December 28, 2002 (filed with
14 the SEC on February 10, 2003 and signed by Anderson and reviewed and/or commented upon
15 by Heinen at a time when Heinen was chief legal officer of the Company (the "December 2002
16 Quarterly Report")) was materially false and misleading for the reasons discussed below.

17 328. The December 2002 Quarterly Report conceals the backdating of options by
18 Apple and fails to disclose the compensation expenses that should have been recorded under
19 GAAP. The December 2002 Quarterly Report states that: (a) operating income (loss) for the
20 three months ended December 28, 2002 and December 28, 2001, was (\$37 million) and (\$4
21 million), respectively; and (b) net income (loss) for the three months ended December 28, 2002
22 and December 29, 2001 was (\$8 million) and \$38 million, respectively. These results are false
23 and misleading because they fail to account for compensation expenses created by backdating
24 that reduced the actual operating and net income (or increased the actual operating or net loss);
25 the precise amounts are known only to defendants. In its 2006 Annual Report, which contained
26 the restatement of Apple's historical results necessitated by backdating, Apple did not state the
27 incremental pre-or post-tax effects of the failure to properly account for the compensation
28 expense created by backdating on these quarterly results.

1 329. The Company's Form 10-Q for the period ended March 29, 2003 (filed with the
2 SEC on May 13, 2003 and signed by Anderson and reviewed and/or commented upon by
3 Heinen at a time when Heinen was chief legal officer of the Company (the "March 29, 2003
4 Quarterly Report")) was materially false and misleading for the reasons discussed below.

5 330. The March 29, 2003 Quarterly Report conceals the backdating of options by
6 Apple and fails to disclose the compensation expenses that should have been recorded under
7 GAAP. The March 29, 2003 Quarterly Report states that: (a) operating income (loss) for the
8 three months ended March 29, 2003 and March 30, 2002, was (\$4 million) and \$28 million,
9 respectively; (b) operating income (loss) for the six months ended March 29, 2003 and March
10 30, 2002 was (\$41 million) and (\$24 million), respectively; (c) net income (loss) for the three
11 months ended March 29, 2003 and March 30, 2002 was \$14 million and \$40 million,
12 respectively; and (d) net income (loss) for the six months ended March 29, 2003 and March 30,
13 2002 was \$6 million and \$78 million, respectively. These results are false and misleading
14 because they fail to account for compensation expenses created by backdating that reduced the
15 actual operating and net income (or increased the actual operating or net loss); the precise
16 amounts are known only to defendants. In its 2006 Annual Report, which contained the
17 restatement of Apple's historical results necessitated by backdating, Apple did not state the
18 incremental pre-or post-tax effects of the failure to properly account for the compensation
19 expense created by backdating on these quarterly results.

20 331. The Company's Form 10-Q for the period ended June 28, 2003 (filed with the
21 SEC on August 12, 2003 and signed by Anderson and reviewed and/or commented upon by
22 Heinen at a time when Heinen was chief legal officer of the Company (the "June 28, 2003
23 Quarterly Report")) was materially false and misleading for the reasons discussed below.

24 332. The June 28, 2003 Quarterly Report conceals the backdating of options by
25 Apple and fails to disclose the compensation expenses that should have been recorded under
26 GAAP. The June 28, 2003 Quarterly Report states that: (a) operating income (loss) for the
27 three months ended June 28, 2003 and June 29, 2002, was \$9 million and \$13 million,
28 respectively; (b) operating income (loss) for the nine months ended June 28, 2003 and June 29,

2002 was (\$32 million) and \$37 million, respectively; (c) net income for the three months ended June 28, 2003 and June 29, 2002 was \$19 million and \$32 million, respectively; and (d) net income for the nine months ended June 28, 2003 and June 29, 2002 was \$25 million and \$110 million, respectively. These results are false and misleading because they fail to account for compensation expenses created by backdating that reduced the actual operating and net income (or increased the actual operating or net loss); the precise amounts are known only to defendants. In its 2006 Annual Report, which contained the restatement of Apple's historical results necessitated by backdating, Apple did not state the incremental pre-or post-tax effects of the failure to properly account for the compensation expense created by backdating on these quarterly results.

4. Quarterly Reports Filed in 2004

333. The Company's Form 10-Q for the period ended December 27, 2003 (filed with the SEC on February 10, 2004 and signed by Jobs and Anderson and reviewed and/or commented upon by Heinen at a time when Heinen was chief legal officer of the Company (the "December 27, 2003 Quarterly Report")) was materially false and misleading for the reasons discussed below.

334. The December 27, 2003 Quarterly Report conceals the backdating of options by Apple and fails to disclose the compensation expenses that should have been recorded under GAAP. The December 27, 2003 Quarterly Report states that: (a) operating income (loss) for the three months ended December 27, 2003 and December 28, 2002, was \$74 million and (\$37 million), respectively; and (b) net income (loss) for the three months ended December 27, 2003 and December 28, 2002 was \$63 million and (\$8 million), respectively. These results are false and misleading because they fail to account for compensation expenses created by backdating that reduced the actual operating and net income (or increased the actual operating or net loss); the precise amounts are known only to defendants. In its 2006 Annual Report, which contained the restatement of Apple's historical results necessitated by backdating, Apple did not state the incremental pre-or post-tax effects of the failure to properly account for the compensation expense created by backdating on these quarterly results.

1 335. The Company's Form 10-Q for the period ended March 27, 2004 (filed with the
2 SEC on May 6, 2004 and signed by Jobs and Anderson and reviewed and/or commented upon
3 by Heinen at a time when Heinen was chief legal officer of the Company (the "March 27, 2004
4 Quarterly Report")) was materially false and misleading for the reasons discussed below.

5 336. The March 27, 2004 Quarterly Report conceals the backdating of options by
6 Apple and fails to disclose the compensation expenses that should have been recorded under
7 GAAP. The March 27, 2004 Quarterly Report states that: (a) operating income (loss) for the
8 three months ended March 27, 2004 and March 29, 2003, was \$52 million and (\$4 million),
9 respectively; (b) operating income (loss) for the six months ended March 27, 2004 and March
10 29, 2003 was \$126 million and (\$41 million), respectively; (c) net income for the three months
11 ended March 27, 2004 and March 29, 2003 was \$46 million and \$14 million, respectively; and
12 (d) net income for the six months ended March 27, 2004 and March 29, 2003 was \$109 million
13 and \$6 million, respectively. These results are false and misleading because they fail to
14 account for compensation expenses created by backdating that reduced the actual operating and
15 net income (or increased the actual operating or net loss); the precise amounts are known only
16 to defendants. In its 2006 Annual Report, which contained the restatement of Apple's
17 historical results necessitated by backdating, Apple did not state the incremental pre-or post-tax
18 effects of the failure to properly account for the compensation expense created by backdating
19 on these quarterly results.

20 337. The Company's Form 10-Q for the period ended June 26, 2004 (filed with the
21 SEC on August 5, 2004 and signed by Jobs and reviewed and/or commented upon by Heinen at
22 a time when Heinen was chief legal officer of the Company (the "June 26, 2004 Quarterly
23 Report")) was materially false and misleading for the reasons discussed below.

24 338. The June 26, 2004 Quarterly Report conceals the backdating of options by
25 Apple and fails to disclose the compensation expenses that should have been recorded under
26 GAAP. The June 26, 2004 Quarterly Report states that: (a) operating income (loss) for the
27 three months ended June 26, 2004 and June 28, 2003, was \$72 million and \$9 million,
28 respectively; (b) operating income (loss) for the nine months ended June 26, 2004 and June 28,

2003 was \$198 million and (\$32 million), respectively; (c) net income for the three months ended June 26, 2004 and June 28, 2003 was \$61 million and \$19 million, respectively; and (d) net income for the nine months ended June 26, 2004 and June 28, 2003 was \$170 million and \$25 million, respectively. These results are false and misleading because they fail to account for compensation expenses created by backdating that reduced the actual operating and net income (or increased the actual operating or net loss); the precise amounts are known only to defendants. In its 2006 Annual Report, which contained the restatement of Apple's historical results necessitated by backdating, Apple did not state the incremental pre-or post-tax effects of the failure to properly account for the compensation expense created by backdating on these quarterly results.

5. Quarterly Reports Filed in 2005

339. The Company's Form 10-Q for the period ended December 25, 2004 (filed with the SEC on February 1, 2005 and signed by Jobs and reviewed and/or commented upon by Heinen at a time when Heinen was chief legal officer of the Company (the "December 25, 2004 Quarterly Report")) was materially false and misleading for the reasons discussed below.

340. The December 25, 2004 Quarterly Report conceals the backdating of options by Apple and fails to disclose the compensation expenses that should have been recorded under GAAP. The December 25, 2004 Quarterly Report states that: (a) operating income for the three months ended December 25, 2004 and December 27, 2003, was \$403 and \$74 million, respectively; and (b) net income for the three months ended December 25, 2004 and December 27, 2003 was \$295 million and \$63 million, respectively. These results are false and misleading because they fail to account for compensation expenses created by backdating that reduced the actual operating and net income (or increased the actual operating or net loss); the precise amounts are known only to defendants. In its 2006 Annual Report, which contained the restatement of Apple's historical results necessitated by backdating, Apple did not state the incremental pre-or post-tax effects of the failure to properly account for the compensation expense created by backdating on these quarterly results.

1 341. The Company's Form 10-Q for the period ended March 26, 2005 (filed with the
2 SEC on May 4, 2005 and signed by Jobs and reviewed and/or commented upon by Heinen at a
3 time when Heinen was chief legal officer of the Company (the "March 26, 2005 Quarterly
4 Report")) was materially false and misleading for the reasons discussed below.

5 342. The March 26, 2005 Quarterly Report conceals the backdating of options by
6 Apple and fails to disclose the compensation expenses that should have been recorded under
7 GAAP. The March 26, 2005 Quarterly Report states that: (a) operating income for the three
8 months ended March 26, 2005 and March 27, 2004, was \$402 million and \$52 million,
9 respectively; (b) operating income for the six months ended March 26, 2005 and March 27,
10 2004 was \$805 million and \$126 million, respectively; (c) net income for the three months
11 ended March 26, 2005 and March 27, 2004 was \$290 million and \$46 million, respectively; and
12 (d) net income for the six months ended March 26, 2005 and March 27, 2004 was \$585 million
13 and \$109 million, respectively. These results are false and misleading because they fail to
14 account for compensation expenses created by backdating that reduced the actual operating and
15 net income (or increased the actual operating or net loss); the precise amounts are known only
16 to defendants. In its 2006 Annual Report, which contained the restatement of Apple's
17 historical results necessitated by backdating, Apple did not state the incremental pre-or post-tax
18 effects of the failure to properly account for the compensation expense created by backdating
19 on these quarterly results.

20 343. The Company's Form 10-Q for the period ended June 25, 2005 (filed with the
21 SEC on August 3, 2005 and signed by Jobs and reviewed and/or commented upon by Heinen at
22 a time when Heinen was chief legal officer of the Company (the "June 25, 2005 Quarterly
23 Report")) was materially false and misleading for the reasons discussed below.

24 344. The June 25, 2005 Quarterly Report conceals the backdating of options by
25 Apple and fails to disclose the compensation expenses that should have been recorded under
26 GAAP. The June 25, 2005 Quarterly Report states that: (a) operating income for the three
27 months ended June 25, 2005 and June 26, 2004 was \$427 million and \$72 million, respectively;
28 (b) operating income for the nine months ended June 25, 2005 and June 26, 2004 was \$1.232

1 billion and \$198 million, respectively; (c) net income for the three months ended June 25, 2005
2 and June 26, 2004 was \$320 million and \$61 million, respectively; and (d) net income for the
3 nine months ended June 25, 2005 and June 26, 2004 was \$905 million and \$170 million,
4 respectively. These results are false and misleading because they fail to account for
5 compensation expenses created by backdating that reduced the actual operating and net income
6 (or increased the actual operating or net loss); the precise amounts are known only to
7 defendants. In its 2006 Annual Report, which contained the restatement of Apple's historical
8 results necessitated by backdating, Apple did not state the incremental pre-or post-tax effects of
9 the failure to properly account for the compensation expense created by backdating on these
10 quarterly results.

11 **6. Quarterly Reports Filed In 2006**

12 345. The Company's Form 10-Q for the period ended December 31, 2005 (filed with
13 the SEC on February 3, 2006 and signed by Jobs and reviewed and/or commented upon by
14 Heinen at a time when Heinen was chief legal officer of the Company (the "December 31, 2005
15 Quarterly Report")) was materially false and misleading for the reasons discussed below.

16 346. The December 31, 2005 Quarterly Report conceals the backdating of options by
17 Apple and fails to disclose the compensation expenses that should have been recorded under
18 GAAP. The December 31, 2005 Quarterly Report states that: (a) operating income for the
19 three months ended December 31, 2005 and December 25, 2004, was \$750 million and \$403
20 million, respectively; and (b) net income for the three months ended December 31, 2005 and
21 December 25, 2004 was \$565 million and \$295 million, respectively. These results are false
22 and misleading because they fail to account for compensation expenses created by backdating
23 that reduced the actual operating and net income (or increased the actual operating or net loss);
24 the precise amounts are known only to defendants. In its 2006 Annual Report, which contained
25 the restatement of Apple's historical results necessitated by backdating, Apple did not state the
26 incremental pre-or post-tax effects of the failure to properly account for the compensation
27 expense created by backdating on these quarterly results.

347. The Company's Form 10-Q for the period ended April 1, 2006 (filed with the SEC on May 5, 2006 and signed by Jobs and reviewed and/or commented upon by Heinen at a time when Heinen was chief legal officer of the Company (the "April 1, 2006 Quarterly Report")) was materially false and misleading for the reasons discussed below.

348. The April 1, 2006 Quarterly Report conceals the backdating of options by Apple and fails to disclose the compensation expenses that should have been recorded under GAAP. The April 1, 2006 Quarterly Report states that: (a) operating income for the three months ended April 1, 2006 and March 26, 2005 was \$529 million and \$402 million, respectively; (b) operating income for the six months ended April 1, 2006 and March 26, 2005 was \$1.279 billion and \$805 million, respectively; (c) net income for the three months ended April 1, 2006 and March 26, 2005 was \$410 million and \$290 million, respectively; and (d) net income for the six months ended April 1, 2006 and March 26, 2005 was \$975 million and \$585 million, respectively. These results are false and misleading because they fail to account for compensation expenses created by backdating that reduced the actual operating and net income (or increased the actual operating or net loss); the precise amounts are known only to defendants. In its 2006 Annual Report, which contained the restatement of Apple's historical results necessitated by backdating, Apple did not state the incremental pre-or post-tax effects of the failure to properly account for the compensation expense created by backdating on these quarterly results.

D. APPLE'S EARNINGS RELEASES

349. Prior to and during the Class Period, Apple published numerous false and misleading statements in its earnings releases which were relied upon by Class Members and which caused Apple's stock price to be materially inflated.

1. Fiscal Year 2000 Earnings Releases

350. On January 19, 2000, Apple issued a press release announcing its results for its fiscal 2000 first quarter that ended January 1, 2000. The press release states, in relevant part:

CUPERTINO, California—January 19, 2000—Apple® today announced financial results for its fiscal 2000 first quarter that

ended January 1, 2000. *For the quarter, the Company posted a net profit of \$183 million, or \$1.03 per diluted share. These results compare to a net profit of \$152 million, or \$.95 per diluted share, achieved in the year-ago quarter.* Revenues for the quarter were \$2.34 billion, up 37 percent from the year-ago quarter, and gross margins were 25.9 percent, down from 28.2 percent in the year-ago quarter. International sales accounted for 51 percent of the quarter's revenues.

The quarter's results included a \$5 million net favorable impact from non-recurring items, including an after-tax gain of \$101 million resulting from the sale of approximately five million shares of ARM Holdings plc., a net restructuring charge of \$6 million, and a one-time charge for a special executive bonus of \$90 million. *Without non-recurring items, the Company's net profit for the quarter would have been \$178 million, up 45 percent from the year-ago-quarter, and earnings per diluted share would have been \$1.00, up 28 percent from the year-ago quarter.*

(emphasis added).

351. The statements emphasized above were materially false and misleading because Apple's reported profits were inflated by the failure to properly account for option awards issued to Apple's employees and thereby artificially reducing Apple's reported expenses. During fiscal year 2000, Apple incurred at least \$13 million in pre-tax expenses associated with its improperly dated options which were not reported in its financial results, and \$9 million in after tax expenses. Apple's income in fiscal 2000 was inflated by at least \$9 million.

352. On April 19, 2000, Apple issued its earnings release for its fiscal 2000 second quarter ended April 1, 2000. The press release stated in relevant part:

CUPERTINO, California—April 19, 2000—Apple® today announced financial results for its fiscal 2000 second quarter ending April 1, 2000. *For the quarter, the Company posted a net profit of \$233 million, or \$1.28 per diluted share. These results compare to a net profit of \$135 million, or \$.84 per diluted share, achieved in the year-ago quarter.* Revenues for the quarter were \$1.94 billion, up 27 percent from the year-ago quarter, and gross margins were 28.2 percent, up from 26.3 percent in the year-ago quarter. International sales accounted for 51 percent of the quarter's revenues.

The quarter's results included a \$73 million after-tax gain from the sale of 1.5 million shares of ARM Holdings plc., which contributed \$.40 to earnings per diluted share. Without non-recurring items, the Company's net profit was \$160 million, an increase of 72 percent from the year-ago quarter and earnings per

diluted share increased 47 percent from the year-ago quarter. Sales of 1,043,000 units drove year-over-year unit growth of 26 percent.

(emphasis added)

353. The statements emphasized above were materially false and misleading because Apple's reported profits were inflated by the failure to properly account for option awards issued to Apple's employees and thereby artificially reducing Apple's reported expenses. During fiscal year 2000, Apple incurred at least \$13 million in pre-tax expenses associated with its improperly dated options which were not reported in its financial results, and \$9 million in after tax expenses. Apple's income in fiscal 2000 was inflated by at least \$9 million.

354. On July 18, 2000, Apple published its earnings release for its fiscal 2000 third quarter ended July 1, 2000. The press release stated in relevant part:

CUPERTINO, California—July 18, 2000—Apple® today announced financial results for its fiscal 2000 third quarter ending July 1, 2000. *For the quarter, the Company posted a net profit of \$200 million, or \$.55 per diluted share. These results compare to a net profit of \$203 million, or \$.60 per diluted share, achieved in the year-ago quarter.* Revenues for the quarter were \$1.825 billion, up 17 percent from the year-ago quarter, and gross margins were 29.8 percent, up from 27.4 percent in the year-ago quarter. International sales accounted for 46 percent of the quarter's revenues.

The quarter's results included a \$37 million after-tax gain from the sale of 4.95 million shares of ARM Holdings plc., which contributed \$.10 to earnings per diluted share. *Excluding investment gains, the Company's net profit would have been \$163 million, an increase of 43 percent from the year-ago quarter, and earnings per diluted share would have been \$.45, up 29 percent from the year-ago quarter.*

Sales of 1,016,000 units during the quarter including over 350 thousand Power Mac™ G4 systems and nearly 450 thousand iMac™ systems drove unit growth of 12 percent.

"We're pleased to report our eleventh consecutive profitable quarter, with net profits up 43 percent," said Steve Jobs, Apple's CEO. "We've now shipped 3.7 million iMacs since introduction, and we had a strong quarter for our pro products, especially PowerBooks."

355. The statements emphasized above were materially false and misleading because Apple's reported profits were inflated by the failure to properly account for option awards

1 issued to Apple's employees and thereby artificially reducing Apple's reported expenses.
 2 During fiscal year 2000, Apple incurred at least \$13 million in pre-tax expenses associated with
 3 its improperly dated options which were not reported in its financial results, and \$9 million in
 4 after tax expenses. Apple's income in fiscal 2000 was inflated by at least \$9 million.

5 356. On September 28, 2000, Apple issued a press release warning that its earnings
 6 for the fourth quarter 2000 would be lower than anticipated. The press release reported, in
 7 relevant part:

8 CUPERTINO, California—September 28, 2000—Apple® today
 9 announced that earnings for its quarter ending September 30, 2000
 10 will be substantially below expectations due to slower than
 11 expected sales in the month of September.

12 *The Company indicated that it expects to report revenues between*
 13 *\$1.85 and \$1.90 billion and earnings per diluted share, excluding*
 14 *investment gains, between \$.30 and \$.33 when actual results are*
 15 *announced on October 18, 2000.*

16 “Three factors contributed to our revenues and earnings coming in
 17 below expectations,” said Fred Anderson, Apple's CFO. “First, we
 18 experienced lower than expected September sales due to a business
 19 slowdown in all geographies. Second, our Education sales, which
 20 normally peak during September, were lower than expected. And
 21 third, our Power Mac G4 Cube is off to a slower than expected
 22 start, resulting in revenues below expectations. We are currently
 23 re-evaluating our plans going forward, and will provide lower
 24 growth targets for next quarter and the next fiscal year when we
 25 announce our final results on October 18.”

26 “We've clearly hit a speedbump, which will result in our earning,
 27 before investment gains, approximately \$110 million rather than
 28 the expected \$165 million for the September quarter,” said Steve
 Jobs, Apple's CEO. “Though this slowdown is disappointing, we
 have so many wonderful new products and programs in the
 pipeline—including Mac OS X early next year—and remain
 positive about our future.”

23 357. Then on October 18, 2000, Apple announced its financial results for its fiscal
 24 2000 fourth quarter ended September 30, 2000. The press release stated, in relevant part:

25 CUPERTINO, California—October 18, 2000—Apple® today
 26 announced financial results for its fiscal 2000 fourth quarter ending
 27 September 30, 2000. *For the quarter, the Company posted a net*
 28 *profit of \$170 million, or \$.47 per diluted share. These results*
compare to a net profit of \$111 million, or \$.31 per diluted share,
achieved in the year ago quarter. Revenues for the quarter were
\$1.87 billion, up 40 percent from the year ago quarter, and gross

1 *margins were 25.0 percent, down from 28.7 percent in the year*
 2 *ago quarter. International sales accounted for 44 percent of the*
quarter's revenues.

3 The quarter's results included a \$62 million after-tax gain from the
 4 sale of 7.1 million shares of ARM Holdings plc., which
 5 contributed \$.17 to earnings per diluted share. Excluding
 6 investment gains, the Company's net profit would have been \$108
 million, an increase of 20 percent from the year ago quarter, and
 earnings per diluted share would have been \$.30, up 20 percent
 from the year ago quarter.

7 Apple shipped 1,122,000 units during the quarter including over
 8 570,000 iMac™ systems.

9 "We have identified several factors which we believe contributed
 10 to our sales shortfall last quarter, and we are taking strong steps to
 11 remedy them going forward," said Steve Jobs, Apple's CEO. "Our
 12 sell-through for September was way below plan, leaving us with an
 13 overhang of channel inventory. Rather than reducing it gradually
 14 over the next several quarters, we have decided to reduce it to a
 normal level by the end of this quarter. This will result in a second
 disappointing financial quarter, even though our sell-through sales
 should be moderately strong. Our plan is to be back on track for
 the January quarter, and we remain very excited about our products
 and programs for 2001."

15 "In light of September's disappointing sales and higher-than-
 16 planned ending channel inventories, we are resetting our revenue
 17 estimates for the December quarter to about \$1.6 billion and are
 targeting a slight profit," said Fred Anderson, Apple's CFO. "We
 18 are also resetting our revenue target for fiscal year 2001 to the \$7.5
 to \$8 billion range and our target for EPS to the \$1.10 to \$1.25
 range."

19 *For the year, the Company generated revenues of \$7.98 billion and*
 20 *net earnings of \$786 million, or \$2.18 per diluted share. These*
results compare to fiscal 1999 revenues of \$6.1 billion and net
earnings of \$601 million, or \$1.81 per diluted share.

21 (emphasis added).

22 358. The statements emphasized above were materially false and misleading because
 23 Apple's reported profits were inflated by the failure to properly account for option awards
 24 issued to Apple's employees and thereby artificially reducing Apple's reported expenses.
 25 During fiscal year 2000, Apple incurred at least \$13 million in pre-tax expenses associated with
 26 its improperly dated options which were not reported in its financial results, and \$9 million in
 27 after tax expenses. Apple's income in fiscal 2000 was inflated by at least \$9 million.
 28

2. Fiscal year 2001 Earnings Releases

359. On July 17, 2001, Apple published an earnings release announcing Apple's earnings for its third quarter 2001 fiscal year ended June 30, 2001. The press release stated, in relevant part:

CUPERTINO, California—July 17, 2001—Apple® today announced financial results for its fiscal 2001 third quarter ended June 30, 2001. *For the quarter, the Company posted a net profit of \$61 million, or \$.17 per diluted share. These results compare to a net profit of \$200 million, or \$.55 per diluted share, achieved in the year ago quarter. Revenues for the quarter were \$1.475 billion, down 19 percent from the year ago quarter, and gross margins were 29.4 percent, compared to 29.8 percent in the year ago quarter.* International sales accounted for 44 percent of the quarter's revenues.

* * *

"We're delivering solid profitability while maintaining lean channel inventories in a weak economic environment," said Fred Anderson, Apple's CFO. "Our balance sheet remains very strong, with over \$4.2 billion in cash, and we are targeting a slight sequential increase in revenues and earnings per share in the September quarter."

(Emphasis added)

360. The statements emphasized above were materially false and misleading because Apple's reported profits were inflated by the failure to properly account for option awards issued to Apple's employees and thereby artificially reducing Apple's reported expenses. During fiscal year 2001, Apple incurred at least \$19 million in pre-tax expenses associated with its improperly dated options which were not reported in its financial results, and \$13 million in after tax expenses. Apple's income in fiscal 2001 was inflated by at least \$13 million. For the January 17, 2001 grant alone, Apple's net loss for 2001 was understated by 10.77%.

361. On October 17, 2001, Apple published an earnings release announcing Apple's earnings for its fourth quarter 2001 fiscal year ended October 1, 2001. The press release stated in relevant part:

CUPERTINO, California—October 17, 2001—Apple® today announced financial results for its fiscal 2001 fourth quarter ended September 29, 2001. *For the quarter, the Company posted a net profit of \$66 million, or \$.19 per diluted share. These results compare to a net profit of \$170 million, or \$.47 per diluted share,*

1 *achieved in the year ago quarter.* Revenues for the quarter were
 2 \$1.45 billion, down 22 percent from the year ago quarter, and gross
 3 margins were 30.1 percent, compared to 25.0 percent in the year
 4 ago quarter. International sales accounted for 41 percent of the
 5 quarter's revenues.

6 The quarter's results included a \$1 million favorable after-tax
 7 impact resulting from realized investment gains. *Excluding these*
 8 *gains, the Company's net profit for the quarter would have been*
 9 *\$65 million, or \$.18 per diluted share.*

10 Apple shipped 850 thousand Macintosh® units during the quarter.

11 "We accomplished a lot in FY 2001, even though it was a
 12 challenging year for us and our industry," said Steve Jobs, Apple's
 13 CEO. "We gained market share in education, and iBook sales to
 14 education tripled last quarter; we launched Mac OS X, and
 15 released the stunningly fast 10.1 update in September; we opened
 16 our first Apple retail stores, and are on track to open 25 stores
 17 across the U.S. by the end of 2001."

18 "We're pleased to have delivered solid results while maintaining
 19 lean channel inventories in a very challenging environment," said
 20 Fred Anderson, Apple's CFO. "Our balance sheet remains very
 21 strong, with over \$4.3 billion in cash. Given the uncertain global
 22 political environment and weak economy, we are targeting
 23 December quarter revenues of at least \$1.4 billion and EPS of at
 24 least \$.10."

25 362. The statements emphasized above were materially false and misleading because
 26 Apple's reported profits were inflated by the failure to properly account for option awards
 27 issued to Apple's employees and thereby artificially reducing Apple's reported expenses.
 28 During fiscal year 2001, Apple incurred at least \$19 million in pre-tax expenses associated with
 its improperly dated options which were not reported in its financial results, and \$13 million in
 after tax expenses. Apple's income in fiscal 2001 was inflated by at least \$13 million. For the
 January 17, 2001 grant alone, Apple's net loss for 2001 was understated by 10.77%.

29 **3. Fiscal year 2002**

30 363. On January 16, 2002, Apple announced its first quarter results for fiscal year
 31 2002. According to Apple's press release:

32 *For the quarter, the Company posted a net profit of \$38 million, or*
 33 *\$.11 per diluted share. These results compare to a net loss of \$195*
 34 *million, or \$.58 per diluted share, in the year ago quarter.*
 35 *Revenues for the quarter were \$1.38 billion, up 37 percent from*
 36 *the year ago quarter, and gross margins were 30.7 percent,*

1 *compared to -2.1 percent in the year ago quarter. International*
 2 *sales accounted for 48 percent of the quarter's revenues.*

3 *"Apple delivered a solid quarter and is one of the few companies*
 4 *making a profit in personal computers during these challenging*
 5 *times," said Steve Jobs, Apple's CEO. "During last quarter we*
 6 *continued our strategy of innovation. We launched the wildly*
 7 *popular iPod and sold more than 125,000 of them in two months.*
 8 *And we ended the year with 27 Apple retail stores that attracted*
 9 *over 800,000 visitors in the month of December alone."*

10 *"We're pleased to have delivered healthy results while maintaining*
 11 *lean channel inventories in a very challenging environment," said*
 12 *Fred Anderson, Apple's CFO. "Our balance sheet remains very*
 13 *strong, with almost \$4.4 billion in cash. We are targeting March*
 14 *quarter revenues to be up sequentially to about \$1.5 billion and*
 15 *EPS to be approximately flat with the December quarter."*

16 364. The statements emphasized above were materially false and misleading because
 17 Apple's reported profits were inflated by the failure to properly account for option awards
 18 issued to Apple's employees and thereby artificially reducing Apple's reported expenses. In
 19 the first quarter of fiscal 2002, Apple had backdated at least one option grant—to Defendant
 20 Jobs—and should have incurred at least \$20.2 million in tax expenses associated with its
 21 improperly dated options which were not reported in its financial results. This concealed
 22 expense together with expenses associated with other backdated options caused Apple to
 23 understand its expenses in fiscal 2002 by \$29 million before taxes and to overstate its income
 24 by \$23 million.

25 365. On April 17, 2002, issued a press release announcing its financial results for its
 26 fiscal 2002 second quarter ended March 30, 2002. The press release stated in pertinent part:

27 CUPERTINO, California—April 17, 2002—Apple® today
 28 announced financial results for its fiscal 2002 second quarter ended
 March 30, 2002. *For the quarter, the Company posted a net profit*
 of \$40 million, or \$.11 per diluted share. These results compare to
 a net profit of \$43 million, or \$.12 per diluted share, in the year
 ago quarter. Revenues for the quarter were \$1.5 billion, up 4
 percent from the year ago quarter, and gross margins were 27.4
 percent, compared to 26.9 percent in the year ago quarter.
 International sales accounted for 45 percent of the quarter's
 revenues.

* * *

1 “We’re pleased to have delivered solid results while executing a
 2 challenging product transition,” said Fred Anderson, Apple’s CFO.
 3 “Our balance sheet remains very strong with \$4.3 billion in cash.
 4 We are targeting June quarter revenues to be up sequentially to
 5 about \$1.6 billion and EPS to be flat to up slightly compared with
 6 the March quarter.”

7 366. The statements emphasized above were materially false and misleading because
 8 Apple’s reported profits were inflated by the failure to properly account for option awards
 9 issued to Apple’s employees and thereby artificially reducing Apple’s reported expenses. In
 10 the first quarter of fiscal 2002, Apple had backdated at least one option grant—to Defendant
 11 Jobs—and should have incurred at least \$20.2 million in tax expenses associated with its
 12 improperly dated options which were not reported in its financial results. This concealed
 13 expense together with expenses associated with other backdated options caused Apple to
 14 understand its expenses in fiscal 2002 by \$29 million before taxes and to overstate its income
 15 by \$23 million.

16 367. On July 16, 2002, Apple issued a press release announcing its financial results
 17 for the fiscal 2002 third quarter ended June 29, 2002. The press release stated in relevant part:

18 CUPERTINO, California—July 16, 2002—Apple® today
 19 announced financial results for its fiscal 2002 third quarter ended
 20 June 29, 2002. *For the quarter, the Company posted a net profit of*
 21 *\$32 million, or \$.09 per diluted share. These results compare to a*
 22 *net profit of \$61 million, or \$.17 per diluted share, in the year ago*
 23 *quarter. Revenues for the quarter were \$1.43 billion, down 3*
 24 *percent from the year ago quarter, and gross margins were 27.4*
 25 *percent, down from 29.4 percent in the year ago quarter.*
 26 International sales accounted for 42 percent of the quarter’s
 27 revenues.

28 * * *

29 “Despite the slowdown in the market, our operational efficiency
 30 was excellent,” said Fred Anderson, Apple’s CFO. “Our balance
 31 sheet is very strong, with \$4.3 billion in cash, and we achieved a
 32 very efficient cash conversion cycle of -36 days. We expect
 33 September quarter revenues to be approximately flat with the June
 34 quarter, and expect a slight profit for the quarter before any non-
 35 recurring items.”

36 368. The statements emphasized above were materially false and misleading because
 37 Apple’s reported profits were inflated by the failure to properly account for option awards

1 issued to Apple's employees and thereby artificially reducing Apple's reported expenses. In
 2 the first quarter of fiscal 2002, Apple had backdated at least one option grant—to Defendant
 3 Jobs—and should have incurred at least \$20.2 million in tax expenses associated with its
 4 improperly dated options which were not reported in its financial results. This concealed
 5 expense together with expenses associated with other backdated options caused Apple to
 6 understand its expenses in fiscal 2002 by \$29 million before taxes and to overstate its income
 7 by \$23 million.

8 369. On October 16, 2002, Apple published a press release announcing its financial
 9 results for the fiscal 2002 fourth quarter ended September 28, 2002. The press release stated, in
 10 relevant part:

11 CUPERTINO, California—October 16, 2002—Apple® today
 12 announced financial results for its fiscal 2002 fourth quarter ended
 13 September 28, 2002. For the quarter, the Company posted a net
 14 loss of \$45 million, or \$.13 per share. These results compare to a
 15 net profit of \$66 million, or \$.19 per diluted share, in the year-ago
 quarter. Revenues for the quarter were \$1.44 billion, flat with the
 year ago quarter, and gross margins were 26.4 percent, down from
 30.1 percent in the year-ago quarter. International sales accounted
 for 35 percent of the quarter's revenues.

16 The quarter's results included several non-recurring items: the
 17 write-down of certain equity investments totaling \$49 million net
 18 of tax; a restructuring charge of \$4 million net of tax; an in-process
 19 R&D charge of \$1 million net of tax; and the reversal of a portion
 20 of a previous executive compensation expense resulting in a
 favorable impact of \$2 million. Excluding these non-recurring
 items, the Company's net profit for the quarter would have been \$7
 million, or \$.02 per share.

21 * * *

22 "Though our industry continues to struggle, we had some bright
 23 spots this quarter—Mac OS X v10.2 Jaguar is a big hit and on
 24 track to have 5 million users by the end of this year, our
 25 'Switchers' campaign is very well received and is attracting a lot
 26 of new customers, and our retail stores sold over \$100 million and
 27 hosted 2.25 million visitors this quarter," said Steve Jobs, Apple's
 CEO. "Looking forward, we do not expect our industry to pick up
 anytime soon, though we're hoping to help put a lot of iPods,
 iMacs and iBooks under trees this holiday season. With the
 stability of our rock-solid balance sheet, Apple will continue to
 invest through this downturn to create the industry's most
 innovative products and best buying experience."

370. The statements emphasized above were materially false and misleading because Apple's reported profits were inflated by the failure to properly account for option awards issued to Apple's employees and thereby artificially reducing Apple's reported expenses. In the first quarter of fiscal 2002, Apple had backdated at least one option grant—to Defendant Jobs—and should have incurred at least \$20.2 million in tax expenses associated with its improperly dated options which were not reported in its financial results. This concealed expense together with expenses associated with other backdated options caused Apple to understand its expenses in fiscal 2002 by \$29 million before taxes and to overstate its income by \$23 million.

4. Fiscal Year 2003

371. On January 15, 2003, Apple published an earnings release announcing its financial results for its first quarter 2003 fiscal year ended January 1, 2003. The press release stated, in relevant part:

Apple® today announced financial results for its fiscal 2003 first quarter ended December 28, 2002. *For the quarter, the Company posted a net loss of \$8 million, or \$.02 per share. These results compare to a net profit of \$38 million, or \$.11 per diluted share, in the year-ago quarter. Revenues for the quarter were \$1.47 billion, up 7 percent from the year-ago quarter, and gross margins were 27.6 percent, down from 30.7 percent in the year-ago quarter. International sales accounted for 43 percent of the quarter's revenues.*

* * *

“We have a very strong new product pipeline for 2003, which we kicked off by introducing the two most advanced notebook computers in the industry last week at Macworld,” said Steve Jobs, Apple's CEO. “We're going to keep investing through this downturn and continue to move our products and distribution channels ever further ahead of our competitors, so that when the economy rebounds we will be positioned for growth.”

“We were extremely pleased with our ability to achieve our revenue target for the first quarter while reducing channel inventories by 11 percent within the quarter,” said Fred Anderson, Apple's CFO. “Continued strong asset management enabled us to increase cash to over \$4.4 billion. Looking ahead to the second quarter of 2003, we expect revenue to be relatively flat with the December quarter, and expect a slight profit for the quarter.”

372. The statements emphasized above were materially false and misleading because Apple's reported losses were understated inflated by its failure to properly account for option awards issued to Apple's employees which artificially reducing Apple's reported expenses. In the first quarter of fiscal 2002, Apple had backdated at least one option grant—to Defendant Jobs—and should have incurred at least \$20.2 million in tax expenses associated with its improperly dated options which were not reported in its financial results. This concealed expense together with expenses associated with other backdated options caused Apple to understand its expenses in fiscal 2002 by \$29 million before taxes and to overstate its income by \$23 million. In fiscal 2003, Apple incurred at least \$16 million in unrecorded compensation expenses due to misdated options grants, which should have reduced earnings by at least \$13 million for the year.

373. On April 16, 2003, Apple published an earnings release for its second quarter 2003 ended April 1, 2003. The press release stated in relevant part:

For the quarter, the Company posted a net profit of \$14 million, or \$.04 per diluted share. These results compare to a net profit of \$40 million, or \$.11 per diluted share, in the year-ago quarter. Revenues for the quarter were \$1.475 billion, down 1 percent from the year-ago quarter, and gross margins were 28.3 percent, up from 27.4 percent in the year-ago quarter. International sales accounted for 47 percent of the quarter's revenues.

Apple shipped 711,000 Macintosh® units during the quarter.

“Our ‘year of the notebook’ is off to a great start, led by the incredible demand for our new aluminum 12-inch and 17-inch PowerBook G4s,” said Steve Jobs, Apple's CEO. “This quarter over 40 percent of the Macs we shipped were notebooks—our highest percentage ever and well ahead of the industry average.”

“We are very pleased to have achieved our revenue target for the second quarter while maintaining channel inventories under 4.5 weeks,” said Fred Anderson, Apple's CFO. “Continued strong asset management enabled us to increase cash to over \$4.5 billion. Looking ahead to the third quarter of 2003, we expect revenue to be relatively flat with the March quarter and expect a slight profit for the quarter.”

374. The statements emphasized above were materially false and misleading because Apple's reported profits were inflated by its failure to properly account for option awards

issued to Apple's employees which artificially reducing Apple's reported expenses. Moreover, Apple's comparison of its performance with its second quarter of fiscal 2002 was misleading because Apple had backdated at least one option grant—to Defendant Jobs—in that quarter and should have incurred at least \$20.2 million in tax expenses associated with its improperly dated options which were not reported in its financial results. This concealed expense together with expenses associated with other backdated options caused Apple to understate its expenses in fiscal 2002 by \$29 million before taxes and to overstate its income by \$23 million. In fiscal 2003, Apple incurred at least \$16 million in unrecorded compensation expenses due to misdated options grants, which should have reduced earnings by at least \$13 million for the year.

375. On July 16, 2003, Apple published a press release announcing its financial results for its third quarter 2003 fiscal year. The press release stated in relevant part:

CUPERTINO, California—July 16, 2003—*Apple® today announced financial results for its fiscal 2003 third quarter ended June 28, 2003. For the quarter, the Company posted a net profit of \$19 million, or \$.05 per diluted share. These results compare to a net profit of \$32 million, or \$.09 per diluted share, in the year-ago quarter. Revenues for the quarter were \$1.545 billion, up 8 percent from the year-ago quarter and up 5 percent sequentially, and gross margins were 27.7 percent, up from 27.4 percent in the year-ago quarter. International sales accounted for 39 percent of the quarter's revenues.*

Apple shipped 771 thousand Macintosh® units during the quarter.

“This was a great new product quarter for Apple, starting with the iTunes Music Store and the new third-generation iPods, and ending with the announcement of the Power Mac G5 and the developer preview of Panther, the fourth major release of Mac OS X,” said Steve Jobs, Apple's CEO. “Customer response to our new products has been very strong, and this quarter we are focused on delivering Power Mac G5s beginning in August and finishing Panther for release later this year.”

“We are very proud to have exceeded our revenue target for the third quarter despite the difficult economic backdrop,” said Fred Anderson, Apple's CFO. “We continue to be pleased with our working capital management and our ability to increase cash which totals over \$4.5 billion. Looking ahead to the fourth quarter of 2003, we expect an increase in revenues and a slight increase in earnings relative to the June quarter.”

1 (emphasis added)

2 376. The statements emphasized above were materially false and misleading because
 3 Apple's reported profits were inflated by its failure to properly account for option awards
 4 issued to Apple's employees which artificially reducing Apple's reported expenses. Moreover,
 5 Apple's comparison of its performance with its second quarter of fiscal 2002 was misleading
 6 because Apple had backdated at least one option grant—to Defendant Jobs—in the first quarter
 7 of 2002 and should have incurred at least \$20.2 million in tax expenses associated with its
 8 improperly dated options which were not reported in its financial results. This concealed
 9 expense together with concealed expenses associated with other backdated options caused
 10 Apple to understate its expenses in fiscal 2002 by \$29 million before taxes and to overstate its
 11 income by \$23 million. In fiscal 2003, Apple incurred at least \$16 million in unrecorded
 12 compensation expenses due to misdated options grants, which should have reduced earnings by
 13 at least \$13 million for the year.

14 377. On October 15, 2003, Apple published a press release announcing its financial
 15 results for its fourth quarter 2003 fiscal year. The press release stated in relevant part:

16
 17 CUPERTINO, California—October 15, 2003—*Apple® today*
 18 *announced financial results for its fiscal 2003 fourth quarter ended*
 19 *September 27, 2003. For the quarter, the Company posted a net*
 20 *profit of \$44 million, or \$.12 per diluted share. These results*
 21 *compare to a net loss of \$45 million, or \$.13 per diluted share, in*
the year-ago quarter. Revenues for the quarter were \$1.715
billion, up 19 percent from the year-ago quarter, and gross
margins were 26.6 percent, up from 26.4 percent in the year-ago
quarter. International sales accounted for 38 percent of the
quarter's revenues.

22 The quarter's results include an after-tax investment gain of \$6
 23 million, a favorable accounting transition adjustment of \$3 million
 24 related to Apple's stock repurchase agreement, and a gain on
 25 settlement of the stock repurchase agreement of \$6 million.
 26 Without these items, net income would have been \$29 million, or
 27 \$.08 per share. Management believes that presentation of results
 28 excluding these items provides meaningful supplemental
 information regarding the Company's operational performance.

Apple shipped 787 thousand Macintosh® units during the quarter,
 up 7 percent from the year-ago quarter, as well as 336 thousand
 iPod® units, up 140 percent from the year-ago quarter.

1 “It was a great new product quarter for Apple,” said Steve Jobs,
 2 Apple’s CEO. “We launched the Power Mac G5, the fastest
 3 personal computer in the world, new PowerBooks and new iPods.
 4 Plus, we’re delivering Panther, the next major release of Mac OS
 5 X, later this month and we’ll have some exciting news regarding
 6 our music efforts tomorrow.”

7 “We are very pleased to have exceeded our revenue and profit
 8 targets for the fourth quarter,” said Fred Anderson, Apple’s CFO.
 9 “Our balance sheet remains strong and our working capital
 10 management is among the best in the industry. Looking ahead to
 11 the first quarter of fiscal 2004, we expect a sequential increase in
 12 revenues to about \$1.9 billion and a slight sequential increase in
 13 GAAP earnings relative to the September quarter.”

14 *For the year, the Company reported net income of \$69 million on*
 15 *revenues of \$6.21 billion compared to net income of \$65 million on*
 16 *revenues of \$5.74 billion in 2002.*

17 (emphasis added)

18 378. The statements emphasized above were materially false and misleading because
 19 Apple’s reported profits were inflated by its failure to properly account for option awards
 20 issued to Apple’s employees which artificially reducing Apple’s reported expenses. Moreover,
 21 Apple’s comparison of its performance with its fourth quarter of fiscal 2002 was misleading
 22 because Apple had backdated at least one option grant—to Defendant Jobs—in the first quarter
 23 of 2002 and should have incurred at least \$20.2 million in tax expenses associated with its
 24 improperly dated options which were not reported in its financial results. This concealed
 25 expense together with concealed expenses associated with other backdated options caused
 26 Apple to understate its expenses in fiscal 2002 by \$29 million before taxes and to overstate its
 27 income by \$23 million. In fiscal 2003, Apple incurred at least \$16 million in unrecorded
 28 compensation expenses due to misdated options grants, which should have reduced earnings by
 at least \$13 million for the year.

379. On January 14, 2004, Apple published a press release announcing its financial
 results for its first quarter 2004 fiscal year. The press release stated in relevant part:

CUPERTINO, California—January 14, 2004—Apple® today
 announced financial results for its fiscal 2004 first quarter ended
 December 27, 2003. *For the quarter, the Company posted a net*
profit of \$63 million, or \$.17 per diluted share. These results

compare to a net loss of \$8 million, or \$.02 per diluted share, in the year-ago quarter. Revenue for the quarter reached a four-year high of \$2.006 billion, up 36 percent from the year-ago quarter. Gross margin was 26.7 percent, down from 27.6 percent in the year-ago quarter. International sales accounted for 44 percent of the quarter's revenue.

The quarter's results include an after-tax investment gain of \$3 million which increased earnings per diluted share by \$.01.

Apple shipped 829 thousand Macintosh® units during the quarter, up 12 percent from the year-ago quarter, as well as 733 thousand iPod® units, up 235 percent from the year-ago quarter.

"It was an outstanding quarter for Apple, with double-digit unit and revenue growth and over 730,000 iPods sold," said Steve Jobs, Apple's CEO. "We're kicking off 2004 with strong momentum, especially for Mac OS X, which is now used by almost 40 percent of our installed base, iPod and the iTunes Music Store, which has a 70 percent share of the legal music download market."

"We are very pleased to have exceeded our revenue and profit targets for the first quarter," said Fred Anderson, Apple's CFO. "Continued strong asset management enabled us to increase cash by \$225 million to just under \$4.8 billion. Looking ahead to the second quarter of fiscal 2004, we expect our third consecutive quarter of year-over-year double-digit growth in both revenue and earnings, with revenue of about \$1.8 billion and earnings per diluted share of \$.08 to \$.10."

(emphasis added)

380. The statements emphasized above were materially false and misleading because Apple's reported profits were inflated by its failure to properly account for option awards issued to Apple's employees which artificially reducing Apple's reported expenses. These concealed expenses together with concealed expenses associated with other backdated options in prior years caused Apple to understate its expenses for prior years by a cumulative \$84 million and income by a cumulative \$63 million. In addition, Apple's reported profits in the first quarter of 2004 were overstated because Apple had unreported expenses in 2004 relating to its improper options dating practices of \$13 million, which reduced 2004 net income by \$10 million.

381. On April 14, 2004, Apple published a press release announcing its second quarter 2004 results. The press release stated, in relevant part:

CUPERTINO, California—April 14, 2004—Apple® today announced financial results for its fiscal 2004 second quarter ended March 27, 2004. *For the quarter, the Company posted a net profit of \$46 million, or \$.12 per diluted share. These results compare to a net profit of \$14 million, or \$.04 per diluted share, in the year-ago quarter.* Revenue for the quarter was \$1.909 billion, up 29 percent from the year-ago quarter. Gross margin was 27.8 percent, down from 28.3 percent in the year-ago quarter. International sales accounted for 43 percent of the quarter's revenue.

The quarter's results include an after-tax restructuring charge of \$7 million. Excluding this charge, the Company's net profit for the quarter would have been \$53 million, or \$.14 per diluted share.

* * *

"Apple had a great quarter with 29 percent revenue growth and 200 percent earnings per share growth year-over-year," said Steve Jobs, Apple's CEO. "We experienced growth in most areas of our business—most dramatically in selling a record 807,000 iPods, up more than 900 percent over the prior year."

"We are very pleased with our third straight quarter of double-digit revenue growth," said Fred Anderson, Apple's CFO. "More importantly our results demonstrate operating margin expansion. Our balance sheet remains very strong with about \$4.6 billion in cash and no debt. Looking ahead to the third quarter of fiscal 2004, we expect our fourth consecutive quarter of year-over-year double-digit growth in both revenue and earnings, with revenue of about \$1.925 billion. We expect GAAP earnings per diluted share of \$.12 to \$.13, including approximately \$.02 per diluted share in restructuring charges."

382. The statements emphasized above were materially false and misleading because Apple's reported profits were inflated by its failure to properly account for option awards issued to Apple's employees which artificially reducing Apple's reported expenses. These concealed expenses together with concealed expenses associated with other backdated options in prior years caused Apple to understate its expenses for prior years by a cumulative \$84 million and income by a cumulative \$63 million. In addition, Apple's reported profits in the second quarter of 2004 were overstated because Apple had unreported expenses in 2004 relating to its improper options dating practices of \$13 million, which reduced 2004 net income by \$10 million.

1 383. On July 24, 2004, Apple published a press release announcing its financial
2 results for its fiscal 2004 third quarter ended June 26, 2004. The press release stated in relevant
3 part:

CUPERTINO, California—July 14, 2004—Apple® today announced financial results for its fiscal 2004 third quarter ended June 26, 2004. *For the quarter, the Company posted a net profit of \$61 million, or \$.16 per diluted share. These results compare to a net profit of \$19 million, or \$.05 per diluted share, in the year-ago quarter. Revenue for the quarter was \$2.014 billion, up 30 percent from the year-ago quarter.* Gross margin was 27.8 percent, up from 27.7 percent in the year-ago quarter. International sales accounted for 39 percent of the quarter's revenue.

The quarter's results include an after-tax restructuring charge of \$6 million. *Excluding this charge, the Company's net profit for the quarter would have been \$67 million, or \$.17 per diluted share.*

Apple shipped 876 thousand Macintosh® units and 860 thousand iPods during the quarter, representing a 14 percent increase in CPU units and a 183 percent increase in iPods over the year-ago quarter.

"It was an outstanding quarter—our highest third quarter revenue in eight years," said Steve Jobs, Apple's CEO. "Our Mac-based revenue grew a healthy 19 percent, and our music-based revenue grew an incredible 162 percent. We've got a strong product portfolio, with some amazing new additions coming later this year."

"We were very pleased with our 30 percent year-over-year revenue growth and our operating margin expansion," said Peter Oppenheimer, Apple's CFO. "Looking ahead to the fourth quarter of fiscal 2004, we expect revenue of about \$2.1 billion and earnings per diluted share of \$.16 to \$.17, including \$.01 per diluted share in restructuring charges."

20 384. The statements emphasized above were materially false and misleading because
21 Apple's reported profits were inflated by its failure to properly account for option awards
22 issued to Apple's employees which artificially reducing Apple's reported expenses. These
23 concealed expenses together with concealed expenses associated with other backdated options
24 in prior years caused Apple to understate its expenses for prior years by a cumulative \$84
25 million and income by a cumulative \$63 million. In addition, Apple's reported profits in the
26 third quarter of 2004 were overstated because Apple had unreported expenses in 2004 relating
27 to its improper options dating practices of \$13 million, which reduced 2004 net income by \$10
28 million.

1 385. On October 13, 2004, Apple published its earnings release for its 2004 fourth
2 quarter ended September 25, 2004. The press release stated, in relevant part:

3 CUPERTINO, California—October 13, 2004—Apple® today
4 announced financial results for its fiscal 2004 fourth quarter ended
5 September 25, 2004. For the quarter, the Company posted a net
6 profit of \$106 million, or \$.26 per diluted share. These results
7 compare to a net profit of \$44 million, or \$.12 per diluted share, in
8 the year-ago quarter. Revenue for the quarter was \$2.35 billion, up
9 37 percent from the year-ago quarter. Gross margin was 27.0
10 percent, up from 26.6 percent in the year-ago quarter. International
11 sales accounted for 37 percent of the quarter's revenue.

12 The quarter's results include an after-tax restructuring charge of \$4
13 million. Excluding this charge, the Company's net profit for the
14 quarter would have been \$110 million, or \$.27 per diluted share.

15 Apple shipped 836,000 Macintosh® units and 2,016,000 iPods
16 during the quarter, representing a 6 percent increase in CPU units
17 and a 500 percent increase in iPods over the year-ago quarter.

18 "We are thrilled to report our highest fourth quarter revenue in
19 nine years," said Steve Jobs, Apple's CEO. "We shipped over 2
20 million iPods, our Retail store revenue grew 95 percent year-over-
21 year, and the new iMac G5 has received phenomenal reviews and
22 is off to a great start."

23 "We're pleased to report 37 percent revenue growth for the quarter
24 and operating margin above 5 percent," said Peter Oppenheimer,
25 Apple's CFO. "Looking ahead to the first quarter of fiscal 2005,
26 we expect revenue of between \$2.8 and \$2.9 billion, operating
27 margin above 7 percent and earnings per diluted share of \$.39 to
28 \$.42."

 For the year, the Company reported net income of \$276 million on
revenue of \$8.28 billion compared to net income of \$69 million on
revenue of \$6.21 billion in 2003.

(emphasis added)

386. The statements emphasized above were materially false and misleading because
Apple's reported profits were inflated by its failure to properly account for option awards
issued to Apple's employees which artificially reducing Apple's reported expenses. These
concealed expenses together with concealed expenses associated with other backdated options
in prior years caused Apple to understate its expenses for prior years by a cumulative \$84
million and income by a cumulative \$63 million. In addition, Apple's reported profits in the
fourth quarter of 2004 were overstated because Apple had unreported expenses in 2004 relating

1 to its improper options dating practices of \$13 million, which reduced 2004 net income by \$10
2 million.

3 387. On January 12, 2005, Apple announced its financial results for its fiscal 2005
4 first quarter ended December 25, 2005. The press release stated in relevant part:

5
6 CUPERTINO, California—January 12, 2005—Apple® today
7 announced financial results for its fiscal 2005 first quarter ended
8 December 25, 2004. *For the quarter, the Company posted a net*
9 *profit of \$295 million, or \$.70 per diluted share. These results*
10 *compare to a net profit of \$63 million, or \$.17 per diluted share, in*
11 *the year-ago quarter. Revenue for the quarter was \$3.49 billion,*
12 *up 74 percent from the year-ago quarter. Gross margin was 28.5*
13 *percent, up from 26.7 percent in the year-ago quarter. International*
14 *sales accounted for 41 percent of the quarter's revenue.*

15 * * *

16 “We are thrilled to report the highest quarterly revenue and net
17 income in Apple’s history,” said Steve Jobs, Apple’s CEO. “We’ve
18 sold over 10 million iPods to date and are kicking off the new year
19 with a slate of innovative new products including iPod shuffle,
20 Mac mini and iLife ‘05.”

21 “We’re pleased to report 74 percent revenue growth, 26 percent
22 Mac unit growth and 525 percent iPod unit growth,” said Peter
23 Oppenheimer, Apple’s CFO. “Looking ahead to the second quarter
24 of fiscal 2005, we expect revenue of about \$2.9 billion and
25 earnings per diluted share of about \$.40.”

26 (emphasis added).

27 388. The statements emphasized above were materially false and misleading because
28 Apple’s reported profits were inflated by its failure to properly account for option awards
issued to Apple’s employees which artificially reducing Apple’s reported expenses. These
concealed expenses together with concealed expenses associated with other backdated options
in prior years caused Apple to understate its expenses for prior years by a cumulative \$97
million and income by a cumulative \$73 million. In addition, Apple’s reported profits in the
first quarter of 2005 were overstated because Apple had unreported expenses in 2005 relating
to its improper options back dating practices in an amount of \$7 million, which reduced 2005
net income by \$7 million.

1 389. On April 13, 2005, Apple published an earnings release announcing its financial
2 results for its fiscal 2005 second quarter ended March 26, 2005. The press release stated in
3 relevant part:

4 CUPERTINO, California—April 13, 2005—Apple® today
5 announced financial results for its fiscal 2005 second quarter ended
6 March 26, 2005. *For the quarter, the Company posted a net profit*
7 *of \$290 million, or \$.34 per diluted share. These results compare*
8 *to a net profit of \$46 million, or \$.06 per diluted share, in the year-*
9 *ago quarter. Revenue for the quarter was \$3.24 billion, up 70*
10 *percent from the year-ago quarter. Gross margin was 29.8 percent,*
11 *up from 27.8 percent in the year-ago quarter. International sales*
12 *accounted for 40 percent of the quarter's revenue.*

13 * * *

14 “We are delighted to report a record second quarter for Apple in
15 both revenue and earnings,” said Steve Jobs, Apple’s CEO. “Apple
16 is firing on all cylinders and we have some incredible new
17 products in the pipeline for the coming year, starting with Mac OS
18 X Tiger later this month.”

19 “We’re very pleased to report 70 percent revenue growth and a 530
20 percent increase in net income,” said Peter Oppenheimer, Apple’s
21 CFO. “Looking ahead to the third quarter of fiscal 2005, we expect
22 revenue of about \$3.25 billion and earnings per diluted share of
23 about \$.28.”

24 (emphasis added).

25 390. The statements emphasized above were materially false and misleading because
26 Apple’s reported profits were inflated by its failure to properly account for option awards
27 issued to Apple’s employees which artificially reducing Apple’s reported expenses. These
28 concealed expenses together with concealed expenses associated with other backdated options
in prior years caused Apple to understate its expenses for prior years by a cumulative \$97
million and income by a cumulative \$73 million. In addition, Apple’s reported profits in the
second quarter of 2005 were overstated because Apple had unreported expenses in 2005
relating to its improper options back dating practices in an amount of \$7 million, which reduced
2005 net income by \$7 million.

391. On July 13, 2005, Apple published a press release announcing its earnings for
its fiscal 2005 third quarter ended June 25, 2005. The press release stated in relevant part:

1 CUPERTINO, California—July 13, 2005—Apple® today
2 announced financial results for its fiscal 2005 third quarter ended
3 June 25, 2005, reporting the highest revenue and earnings in the
4 Company’s history. Apple posted a net quarterly profit of \$320
5 million, or \$.37 per diluted share, and revenue of \$3.52 billion.
6 These results compare to a net profit of \$61 million, or \$.08 per
7 diluted share, and revenue of \$2.01 billion in the year-ago quarter,
8 and represent revenue growth of 75 percent and net profit growth
9 of 425 percent. Gross margin was 29.7 percent, up from 27.8
10 percent in the year-ago quarter. International sales accounted for
11 39 percent of the quarter’s revenue.

12 Apple shipped 1,182,000 Macintosh® units and 6,155,000 iPods
13 during the quarter, representing 35 percent growth in Macs and
14 616 percent growth in iPods over the year-ago quarter.

15 “We are delighted to report Apple’s best quarter ever in both
16 revenue and earnings,” said Steve Jobs, Apple’s CEO. “The launch
17 of Mac OS X Tiger has been a tremendous success, and we have
18 more amazing new products in the pipeline.”

19 “We’re very pleased to report 75 percent revenue growth and a 425
20 percent increase in net income,” said Peter Oppenheimer, Apple’s
21 CFO. “Looking ahead to the fourth quarter of fiscal 2005, we
22 expect revenue of about \$3.5 billion and earnings per diluted share
23 of about \$.32.”

24 (emphasis added).

25 392. The statements emphasized above were materially false and misleading because
26 Apple’s reported profits were inflated by its failure to properly account for option awards
27 issued to Apple’s employees which artificially reducing Apple’s reported expenses. These
28 concealed expenses together with concealed expenses associated with other backdated options
in prior years caused Apple to understate its expenses for prior years by a cumulative \$97
million and income by a cumulative \$73 million. In addition, Apple’s reported profits in the
third quarter of 2005 were overstated because Apple had unreported expenses in 2005 relating
to its improper options back dating practices in an amount of \$7 million, which reduced 2005
net income by \$7 million.

393. On October 11, 2005, Apple announced its financial results for its fiscal 2005
fourth quarter ended September 24, 2005. The press release stated, in relevant part:

CUPERTINO, California—October 11, 2005—Apple® today announced financial results for its fiscal 2005 fourth quarter ended September 24, 2005, reporting the highest revenue and earnings in the Company’s history. *Apple posted revenue of \$3.68 billion and a net quarterly profit of \$430 million, or \$.50 per diluted share. These results compare to revenue of \$2.35 billion and a net profit of \$106 million, or \$.13 per diluted share, in the year-ago quarter.* Gross margin was 28.1 percent, up from 27.0 percent in the year-ago quarter. International sales accounted for 40 percent of the quarter’s revenue.

Earnings per share benefited by \$.12 from several tax items related to net deferred tax assets, tax reserves, and a revision to the full year tax rate estimated in prior quarters.

* * *

For fiscal 2005, the Company generated revenue of \$13.93 billion and a net profit of \$1.335 billion, reflecting annual growth of 68 percent and 384 percent, respectively, and representing the highest annual revenue and net profit in the Company’s history.

“We’re thrilled to have concluded the best year in Apple’s history, with 68 percent year-over-year revenue growth and 384 percent net profit growth,” said Steve Jobs, Apple’s CEO. “This is the direct result of our focus on innovation and the immense talent and creativity at Apple. We could not be more excited about the new products we’re working on for 2006.”

“We’re very pleased to report 48 percent year-over-year growth in Mac shipments in Q4, as well as our 10th consecutive quarter of record iPod sales,” said Peter Oppenheimer, Apple’s CFO. “Looking ahead to the first quarter of fiscal 2006 which will span 14 weeks, we expect revenue of about \$4.7 billion. We expect GAAP earnings per diluted share of about \$.46, including an estimated \$.03 per share expense impact from non-cash share-based compensation, translating to non-GAAP EPS of about \$.49.”

(emphasis added).

394. The statements emphasized above were materially false and misleading because Apple’s reported profits were inflated by its failure to properly account for option awards issued to Apple’s employees which artificially reducing Apple’s reported expenses. These concealed expenses together with concealed expenses associated with other backdated options in prior years caused Apple to understate its expenses for prior years by a cumulative \$97 million and income by a cumulative \$73 million. In addition, Apple’s reported profits in the fourth quarter of 2005 were overstated because Apple had unreported expenses in 2005 relating

1 to its improper options back dating practices in an amount of \$7 million, which reduced 2005
2 net income by \$7 million.

3 395. On January 18, 2006, Apple accounted financial results for its fiscal 2006 first
4 quarter ended December 31, 2005. The press release stated in relevant part:

5
6 CUPERTINO, California—January 18, 2006—Apple® today
7 announced financial results for its fiscal 2006 first quarter ended
8 December 31, 2005, reporting the highest revenue and earnings in
9 the Company’s history. *Apple posted revenue of \$5.75 billion and*
10 *a net quarterly profit of \$565 million, or \$.65 per diluted share, in*
11 *this 14-week quarter. These results compare to revenue of \$3.49*
12 *billion and a net profit of \$295 million, or \$.35 per diluted share,*
13 *in the year-ago quarter.* Gross margin was 27.2 percent, down
14 from 28.5 percent in the year-ago quarter. International sales
15 accounted for 40 percent of the quarter’s revenue.

16
17 Apple shipped 1,254,000 Macintosh® computers and 14,043,000
18 iPods during the quarter, representing 20 percent growth in Macs
19 and 207 percent growth in iPods over the year-ago quarter.

20
21 “We are thrilled to report the best quarter in Apple’s history,” said
22 Steve Jobs, Apple’s CEO. “Two highlights of an incredible quarter
23 were selling 14 million iPods and getting ready to launch our new
24 Macs with Intel processors five to six months ahead of
25 expectations. We are working on more wonderful products for
26 2006, and I can’t wait to see what our customers think of them.”

27
28 “We’re very pleased to report year-over-year revenue growth of 65
percent and net income that was nearly twice the year-ago level,”
said Peter Oppenheimer, Apple’s CFO. “Looking ahead to the
second quarter of fiscal 2006, we expect revenue of about \$4.3
billion. We expect GAAP earnings per diluted share of about \$.38,
including an estimated \$.04 per share expense impact from non-
cash stock-based compensation, translating to non-GAAP EPS of
about \$.42.”

29 (emphasis added).

30 396. The statements emphasized above were materially false and misleading because
31 Apple’s reported profits were inflated by its failure to properly account for option awards
32 issued to Apple’s employees which artificially reducing Apple’s reported expenses. These
33 concealed expenses together with concealed expenses associated with other backdated options
34 in prior years caused Apple to understate its expenses for prior years by a cumulative \$104
35 million and income by a cumulative \$80 million. In addition, Apple’s reported profits in the
36 first quarter of 2006 were overstated because Apple had unreported expenses in 2006 relating

1 to its improper options back dating practices in an amount of \$1 million, and incurred
 2 additional tax expenses from previously backdated options reduced 2006 net income by \$4
 3 million.

4 397. On April 19, 2006, Apple announced its financial results for its fiscal 2006
 5 second quarter ended April 1, 2006. The press release stated in relevant part:

6 CUPERTINO, California—April 19, 2006—Apple® today
 7 announced financial results for its fiscal 2006 second quarter ended
 8 April 1, 2006. *The Company posted revenue of \$4.36 billion and a*
 9 *net quarterly profit of \$410 million, or \$.47 per diluted share.*
 10 *These results compare to revenue of \$3.24 billion and a net profit*
 11 *of \$290 million, or \$.34 per diluted share, in the year-ago quarter.*
 Gross margin was 29.8 percent, equivalent to the year-ago quarter.
 International sales accounted for 43 percent of the quarter's
 revenue.

12 * * *

13 “We’ve generated over \$10 billion in revenue and almost \$1
 14 billion in earnings in the first half of fiscal 2006,” said Steve Jobs,
 15 Apple’s CEO. “Our transition to Intel processors is going very
 well, and our music business just experienced another quarter of
 outstanding growth.”

16 “We’re very pleased to report the second highest quarterly sales in
 17 Apple’s history, resulting in year-over-year revenue growth of 34
 18 percent and earnings growth of 41 percent,” said Peter
 19 Oppenheimer, Apple’s CFO. “Looking ahead to the third quarter
 20 of fiscal 2006, we expect revenue of about \$4.2 to \$4.4 billion. We
 expect GAAP earnings per diluted share of about \$.39 to \$.43,
 including an estimated \$.04 per share expense impact from non-
 cash stock-based compensation, translating to non-GAAP EPS of
 about \$.43 to \$.47.”

21 (emphasis added).

22 398. The statements emphasized above were materially false and misleading because
 23 Apple’s reported profits were inflated by its failure to properly account for option awards
 24 issued to Apple’s employees which artificially reducing Apple’s reported expenses. These
 25 concealed expenses together with concealed expenses associated with other backdated options
 26 in prior years caused Apple to understate its expenses for prior years by a cumulative \$104
 27 million and income by a cumulative \$80 million. In addition, Apple’s reported profits in the
 28 second quarter of 2006 were overstated because Apple had unreported expenses in 2006

1 relating to its improper options back dating practices in an amount of \$1 million, and incurred
2 additional tax expenses from previously backdated options reduced 2006 net income by \$4
3 million.

4 399. On July 19, 2006, Apple published a press release announcing its financial
5 results for its fiscal 2006 third quarter ended July 1, 2006. The press release stated in relevant
6 part:

7
8 CUPERTINO, California—July 19, 2006—Apple® today
9 announced financial results for its fiscal 2006 third quarter ended
10 July 1, 2006. *The Company posted revenue of \$4.37 billion and a*
11 *net quarterly profit of \$472 million, or \$.54 per diluted share.*
12 *These results compare to revenue of \$3.52 billion and a net profit*
13 *of \$320 million, or \$.37 per diluted share, in the year-ago quarter.*
14 Gross margin was 30.3 percent, up from 29.7 percent in the year-
15 ago quarter. International sales accounted for 39 percent of the
16 quarter's revenue.

17 Apple shipped 1,327,000 Macintosh® computers and 8,111,000
18 iPods during the quarter, representing 12 percent growth in Macs
19 and 32 percent growth in iPods over the year-ago quarter.

20 “We’re thrilled with the growth of our Mac business, and
21 especially that over 75 percent of the Macs sold during the quarter
22 used Intel processors. This is the smoothest and most successful
23 transition that any of us have ever experienced,” said Steve Jobs,
24 Apple’s CEO. “In addition, iPod continued to earn a US market
25 share of over 75 percent and we are extremely excited about future
26 iPod products in our pipeline.”

27 “We’re very pleased to report the second highest quarterly sales
28 and earnings in Apple’s history, resulting in year-over-year
revenue growth of 24 percent and earnings growth of 48 percent,”
said Peter Oppenheimer, Apple’s CFO. “Looking ahead to the
fourth quarter of fiscal 2006, we expect revenue of about \$4.5 to
\$4.6 billion. We expect GAAP earnings per diluted share of about
\$.46 to \$.48, including an estimated \$.03 per share expense impact
from non-cash stock-based compensation, translating to non-
GAAP EPS of about \$.49 to \$.51.”

400. The statements emphasized above were materially false and misleading because
Apple’s reported profits were inflated by its failure to properly account for option awards
issued to Apple’s employees which artificially reducing Apple’s reported expenses. These
concealed expenses together with concealed expenses associated with other backdated options
in prior years caused Apple to understate its expenses for prior years by a cumulative \$104

million and income by a cumulative \$80 million. In addition, Apple's reported profits in the third quarter of 2006 were overstated because Apple had unreported expenses in 2006 relating to its improper options back dating practices in an amount of \$1 million, and incurred additional tax expenses from previously backdated options reduced 2006 net income by \$4 million.

E. EARNINGS CONFERENCE CALLS

401. During the Class Period, Apple made numerous false and misleading statements in its earnings conference calls which were relied upon by Class Members and which cause Apple's stock price to be materially inflated

402. During the Class Period, Apple held certain conference calls with Wall Street analysts, investors and others at which Anderson and other senior Apple executives discussed Apple's quarterly financial results and future earnings guidance. During these calls, Anderson and other Apple senior executives concealed Apple's backdating practices, failed to disclose the compensation expenses that were required to be recognized under APB No. 25 when "in the money" options are issued and/or failed to disclose the negative effect such unrecognized compensation expenses had on Apple's quarterly net income, as discussed below.

Third Quarter 2002 Earnings Conference Call Held July 16, 2002

403. During Apple's Third Quarter 2002 Earnings Conference Call, which was held July 16, 2002, Anderson stated the following in relevant part:

FRED ANDERSON, CFO, APPLE COMPUTER: Thank you, Nancy. As we indicated on June 18th, Apple's third quarter proved to be very challenging. We did not experience the seasonal uplift in demand that we typically experience in the latter part of May and in June, resulting in quarterly revenues of \$1.429 billion, about 11% below our original guidance. We achieved diluted earnings per share of 9 cents, compared to our original guidance of 11 cents, or slightly better.

* * *

Operating expenses were 378 million, 5 million below the previous quarter. In accordance with generally accepted accounting principles, approximately 9 million of development costs related to the Jaguar release of Mac OS X were capitalized during the quarter and will be amortized over three years.

1 This statement was false and misleading because, as a result of the unrecognized compensation
 2 expense from backdated options, Apple's operating expenses were more than \$378 million for
 3 the fiscal third quarter 2002 and were not in accordance with GAAP. In its 2006 Annual Report,
 4 which contained the restatement of Apple's historical results necessitated by backdating, Apple
 5 did not state the incremental pre-or post-tax effects of the failure to properly account for the
 6 compensation expense created by backdating on these quarterly results.

7 Fourth Quarter 2002 Earnings Conference Call Held October 16, 2002

8 404. During Apple's Fourth Quarter 2002 Earnings Conference Call, which was held
 9 October 16, 2002, Anderson stated the following in relevant part:

10 FRED ANDERSON, EXECUTIVE VP AND CFO, APPLE
 11 COMPUTER: Thanks, Nancy. In its fiscal fourth quarter Apple
 12 generated revenues of 1.44 billion and earnings before
 nonrecurring items of 2 cents per share....

13 Finally, we reversed a small portion of a previous charge related to
 14 a special executive bonus expense in the prior year resulting in a
 favorable impact of \$2 million.

15 Collectively, these nonrecurring items reduced net income by \$52
 16 million. Including the nonrecurring items, Apple reported a net
 loss of 45 million or 13c per share.

17 405. This statement was false and misleading because, as a result of the unrecognized
 18 compensation expense from backdated options, Apple's net loss was greater than the \$45
 19 million it reported for the fiscal fourth quarter 2002. In its 2006 Annual Report, which
 20 contained the restatement of Apple's historical results necessitated by backdating, Apple did
 21 not state the incremental pre-or post-tax effects of the failure to properly account for the
 22 compensation expense created by backdating on these quarterly results.

23 First Quarter 2003 Earnings Conference Call Held January 15, 2003

24 406. During Apple's First Quarter 2003 Earnings Conference Call, which was held
 25 January 15, 2003, Anderson stated the following in relevant part:

26
 27 FRED ANDERSON, CFO AND EXECUTIVE VP, APPLE
 28 COMPUTER INC.: Thank you, Nancy. We are pleased to report
 that despite an environment that continues to be very challenging

Apple generated revenues of \$1.47 billion in our first fiscal quarter. Representing a 7% increase from the year-ago quarter. Our [GAAP] results reflected a loss of 8 million, or 2 cents per share. These results included a \$17 million after-tax restructuring charge and a \$2 million after-tax accounting transition adjustment. Excluding these nonrecurring items, earnings were \$11 million or 3 cents per share.

407. This statement was false and misleading because, as a result of the unrecognized compensation expense from backdated options, Apple's actual loss was greater than \$8 million and its earnings excluding the identified nonrecurring items were less than \$11 million for the fiscal first quarter 2003. In its 2006 Annual Report, which contained the restatement of Apple's historical results necessitated by backdating, Apple did not state the incremental pre-or post-tax effects of the failure to properly account for the compensation expense created by backdating on these quarterly results.

Second Quarter 2003 Earnings Conference Call Held April 16, 2003

408. During Apple's Second Quarter 2003 Earnings Conference Call, which was held April 16, 2003, Anderson stated the following in relevant part:

FRED ANDERSON, CFO AND EXECUTIVE VP, APPLE COMPUTER INCORPORATED: Thank you, Nancy.

We're very pleased to report that despite an increasingly challenging and unpredictable environment, Apple generated revenues of \$1.475 billion in our second fiscal quarter.

Net income was \$14 million or 4 cents per diluted share.

* * *

Reported operating expenses were 422 million, including a 3 million pre-tax restructuring charge.

409. This statement was false and misleading because, as a result of the unrecognized compensation expense from backdated options, Apple's net income was less than \$14 million and operating expenses were greater than \$422 million for the fiscal second quarter 2003. In its 2006 Annual Report, which contained the restatement of Apple's historical results necessitated by backdating, Apple did not state the incremental pre-or post-tax effects of the failure to

properly account for the compensation expense created by backdating on these quarterly results.

Fourth Quarter 2004 Earnings Conference Call Held October 13, 2004

410. During Apple's Fourth Quarter 2004 Earnings Conference Call, which was held October 13, 2004, Peter Oppenheimer, Anderson's successor as Chief Financial Officer of the Company, stated the following in relevant part:

Peter Oppenheimer, Chief Financial Officer

Thank you, Nancy. Thank you for joining us. We are pleased to report an outstanding quarter that exceeded our expectations. Revenue of 2.35 billion was up 37% year over year and represented the highest fourth fiscal quarter

revenue for Apple in nine years. Net income was 106 million, or 26 cents per diluted share.

* * *

Excluding the pre-tax restructuring charge of 5 million, operating expense was 501 million, about 16 million higher than expected, primarily due to variable selling expenses associated with the higher than expected revenue.

411. This statement was false and misleading because, as a result of the unrecognized compensation expense from backdated options, Apple's net income was less than \$106 million and operating expenses were greater than \$501 million for the fiscal fourth quarter 2004. In its 2006 Annual Report, which contained the restatement of Apple's historical results necessitated by backdating, Apple did not state the incremental pre-or post-tax effects of the failure to properly account for the compensation expense created by backdating on these quarterly results.

First Quarter 2005 Earnings Conference Call Held January 1, 2005

412. During Apple's First Quarter 2005 Earnings Conference Call, which was held January 1, 2005, Peter Oppenheimer stated the following in relevant part:

Peter Oppenheimer, Senior Vice President and Chief Financial Officer

Thank you, Nancy. Thank you for joining us....Revenue of 3.49 billion was up 74% year over year and net income was \$295 million or 70 cents per diluted share.

* * *

Operating expense was 593 million [sic] higher than expected primarily due to variable selling expenses associated with the higher than expected revenue.

413. This statement was false and misleading because, as a result of the unrecognized compensation expense from backdated options, Apple's net income was less than \$295 million and operating expenses were greater than \$593 million for the fiscal first quarter 2005. In its 2006 Annual Report, which contained the restatement of Apple's historical results necessitated by backdating, Apple did not state the incremental pre-or post-tax effects of the failure to properly account for the compensation expense created by backdating on these quarterly results.

Second Quarter 2005 Earnings Conference Call Held April 13, 2005

414. During Apple's Second Quarter 2005 Earnings Conference Call, which was held April 13, 2005, Peter Oppenheimer stated the following in relevant part:

Peter Oppenheimer, Senior Vice President and Chief Financial Officer

Thank you, Nancy. Thank you for joining us....Revenue of 3.243 billion was up 70% year over year and net income was \$290 million, up 530% year over year, generating earnings per diluted share of 34 cents.

* * *

Operating expense was 566 million, slightly lower than guidance, primarily due to greater capitalization of Tiger development costs.

415. This statement was false and misleading because, as a result of the unrecognized compensation expense from backdated options, Apple's net income was less than \$290 million and operating expenses were greater than \$566 million for the fiscal second quarter 2005. In its 2006 Annual Report, which contained the restatement of Apple's historical results necessitated

1 by backdating, Apple did not state the incremental pre-or post-tax effects of the failure to
 2 properly account for the compensation expense created by backdating on these quarterly
 3 results.

4 Third Quarter 2005 Earnings Conference Call Held July 13, 2005

5 416. During Apple's Third Quarter 2005 Earnings Conference Call, which was held
 6 July 13, 2005, Peter Oppenheimer stated the following in relevant part:

7
 8 **Peter Oppenheimer, Senior Vice President and Chief Financial Officer**

9 Thank you, Nancy. Thank you for joining us....Revenue of 3.52
 10 billion grew 75% year over year and net income of 320 million
 11 grew 425% year over year generating earnings per diluted share of
 37 cents.

12 * * *

13 Operating expense was 617 million, 17 million higher than
 14 guidance primarily due to variable selling expenses associated with
 the higher than expected revenue.

15 417. This statement was false and misleading because, as a result of the unrecognized
 16 compensation expense from backdated options, Apple's net income was less than \$320 million
 17 and operating expenses were greater than \$617 million for the fiscal third quarter 2005. In its
 18 2006 Annual Report, which contained the restatement of Apple's historical results necessitated
 19 by backdating, Apple did not state the incremental pre-or post-tax effects of the failure to
 20 properly account for the compensation expense created by backdating on these quarterly
 21 results.

22 Fourth Quarter 2005 Earnings Conference Call Held October 11, 2005

23 418. During Apple's Fourth Quarter 2005 Earnings Conference Call, which was held
 24 October 11, 2005, Peter Oppenheimer stated the following in relevant part:

25 **Peter Oppenheimer, Senior Vice President and Chief Financial Officer**

26 Thank you, Nancy. Thank you for joining us....Revenue of 3.68
 27 billion grew 57% year over year....Net income of 430 million
 28

grew 306% year over year, generating earnings per diluted share of 50 cents.

* * *

Operating expense was 617 million, in line with our guidance. Included in operating expense was approximately 10 million in non-cash share-based compensation.

419. This statement was false and misleading because, as a result of the unrecognized compensation expense from backdated options, Apple's net income was less than \$430 million and operating expenses were greater than \$617 million for the fiscal fourth quarter 2005. In its 2006 Annual Report, which contained the restatement of Apple's historical results necessitated by backdating, Apple did not state the incremental pre-or post-tax effects of the failure to properly account for the compensation expense created by backdating on these quarterly results.

First Quarter 2006 Earnings Conference Call Held January 18, 2006

420. During Apple's First Quarter 2006 Earnings Conference Call, which was held January 18, 2006, Peter Oppenheimer stated the following in relevant part:

Peter Oppenheimer, Senior Vice President and Chief Financial Officer

Thank you, Nancy. Thank you for joining us....Revenue of 5.75 billion increased over 2 billion from last quarter's record revenue....[N]et income was 565 million or \$0.65 per diluted share on a GAAP basis. Excluding the impact of non-cash stock-based compensation, operating margin was 13.8%, net income was 595 million, and diluted earnings per share were \$0.68.

* * *

GAAP operating expenses were 814 million, including 39 million in expense related to stock-based compensation.

421. This statement was false and misleading because, as a result of the unrecognized compensation expense from backdated options, Apple's net income was less than \$565 million, operating expenses were greater than \$814 million and more than \$39 million in expense related to stock-based compensation should have been recognized for the fiscal first quarter 2006. In its 2006 Annual Report, which contained the restatement of Apple's historical results

necessitated by backdating, Apple did not state the incremental pre-or post-tax effects of the failure to properly account for the compensation expense created by backdating on these quarterly results.

Second Quarter 2006 Earnings Conference Call Held April 19, 2006

422. During Apple's Second Quarter 2006 Earnings Conference Call, which was held April 19, 2006, Peter Oppenheimer stated the following in relevant part:

Peter Oppenheimer, Senior Vice President and Chief Financial Officer

Thank you, Nancy. Thank you for joining us....The quarter's revenue of 4.36 billion was the second highest in Apple's history....[N]et income was 565 million or \$0.65 per diluted share on a GAAP basis. Excluding the impact of 42 million in non-cash stock-based compensation, operating margin was 13.1%, net income was 440 million, and diluted earnings per share were \$0.50.

* * *

GAAP operating expenses were 768 million, including 37 million in expense related to stock-based compensation.

423. This statement was false and misleading because, as a result of the unrecognized compensation expense from backdated options, Apple's net income was less than \$565 million, operating expenses were greater than \$768 million and more than \$37 million in expense related to stock-based compensation should have been recognized for the second fiscal quarter 2006. In its 2006 Annual Report, which contained the restatement of Apple's historical results necessitated by backdating, Apple did not state the incremental pre-or post-tax effects of the failure to properly account for the compensation expense created by backdating on these quarterly results.

F. CEO AND CFO ANNUAL REPORT CERTIFICATIONS

424. During the Class Period, certain Apple filed false and misleading annual certifications with the SEC which were relied upon by Class Members and which caused Apple's stock price to be materially inflated.

425. Individual defendants Jobs and Anderson filed false certifications with the SEC relating to certain of Apple's financial statements as discussed more fully below. These

1 certifications were required pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the
2 Sarbanes-Oxley Act of 2002.

3 426. With respect to Apple's 2003 Annual Report, 2004 Annual Report and 2005
4 Annual Report, defendant Jobs, Apple's CEO, made the following false and misleading
5 certification:

6 1. I have reviewed this annual report on Form 10-K of Apple
7 Computer, Inc.;

8 2. Based on my knowledge, this annual report does not contain
9 any untrue statement of a material fact or omit to state a
10 material fact necessary to make the statements made, in light of
11 the circumstances under which such statements were made, not
12 misleading with respect to the period covered by this annual
13 report;

14 3. Based on my knowledge, the financial statements, and other
15 financial information included in this annual report, fairly
16 present in all material respects the financial condition, results
17 of operations and cash flows of the registrant as of, and for, the
18 periods presented in this annual report;

19 4. The registrant's other certifying officers and I are
20 responsible for establishing and maintaining disclosure controls
21 and procedures (as defined in Exchange Act Rules 13a-14 and
22 15d-14) for the registrant and have:

23 a) Designed such disclosure controls and procedures, or
24 caused such disclosure controls and procedures to be
25 designed under our supervision, to ensure that material
26 information relating to the registrant, including its
27 consolidated subsidiaries, is made known to us by others
28 within those entities, particularly during the period in
which this annual report is being prepared;

b) Evaluated the effectiveness of the registrant's
disclosure controls and procedures and presented in this
report our conclusions about the effectiveness of the
disclosure controls and procedures, as of the end of the
period covered by this report based on such evaluation;
and

c) Disclosed in this report any change in the registrant's
internal control over financial reporting that occurred
during the registrant's fourth fiscal quarter that has

1 materially affected, or is reasonably likely to materially
2 affect, the registrant's internal control over financial
reporting; and

3 5. The registrant's other certifying officers and I have
4 disclosed, based on our most recent evaluation of internal
5 control over financial reporting, to the registrant's auditors and
6 the audit committee of registrant's board of directors (or
persons performing the equivalent functions):

7 a) All significant deficiencies and material weaknesses in
8 the design or operation of internal controls over financial
9 reporting which are reasonably likely to adversely affect
the registrant's ability to record, process, summarize and
report financial information; and

10 b) Any fraud, whether or not material, that involves
11 management or other employees who have a significant
12 role in the registrant's internal control over financial
reporting.

13 427. These certifications were false and misleading because, as alleged in detail
14 herein, Jobs was aware of Apple's backdating practices, actually recommended the backdating
15 of options and was aware of the accounting ramifications and the effect of backdating on the
16 Company's financial statements and, therefore, (a) he lied when he certified that Apple's 2003
17 Annual Report, 2004 Annual Report and 2005 Annual Report contained (i) no untrue
18 statements of material fact and did not omit to state material facts relating to backdating, (ii)
19 financial statements that fairly presented the financial condition, results of operations and cash
20 flows of the Company, and (b) he lied when he certified that he disclosed to the Company's
21 auditors and/or Audit Committee any fraud, whether or not material, that involves management
22 or other employees who have a significant role in the Company's internal control over financial
23 reporting.

24 428. With respect to Apple's 2003 Annual Report, defendant Anderson, Apple's
25 former CFO, made the following false and misleading certification:

26 1. I have reviewed this annual report on Form 10-K of Apple
27 Computer, Inc.;

1 2. Based on my knowledge, this annual report does not contain
2 any untrue statement of a material fact or omit to state a
3 material fact necessary to make the statements made, in light of
4 the circumstances under which such statements were made, not
misleading with respect to the period covered by this annual
report;

5 3. Based on my knowledge, the financial statements, and other
6 financial information included in this annual report, fairly
7 present in all material respects the financial condition, results
8 of operations and cash flows of the registrant as of, and for, the
periods presented in this annual report;

9 4. The registrant's other certifying officers and I are
10 responsible for establishing and maintaining disclosure controls
and procedures (as defined in Exchange Act Rules 13a-14 and
15d-14) for the registrant and have:

11 a) Designed such disclosure controls and procedures, or
12 caused such disclosure controls and procedures to be
13 designed under our supervision, to ensure that material
14 information relating to the registrant, including its
15 consolidated subsidiaries, is made known to us by others
within those entities, particularly during the period in
which this annual report is being prepared;

16 b) Evaluated the effectiveness of the registrant's
17 disclosure controls and procedures and presented in this
18 report our conclusions about the effectiveness of the
19 disclosure controls and procedures, as of the end of the
period covered by this report based on such evaluation;
and

20 c) Disclosed in this report any change in the registrant's
21 internal control over financial reporting that occurred
22 during the registrant's fourth fiscal quarter that has
23 materially affected, or is reasonably likely to materially
affect, the registrant's internal control over financial
reporting; and

24 5. The registrant's other certifying officers and I have
25 disclosed, based on our most recent evaluation of internal
26 control over financial reporting, to the registrant's auditors and
the audit committee of registrant's board of directors (or
persons performing the equivalent functions):

27 a) All significant deficiencies and material weaknesses in
28 the design or operation of internal controls over financial

reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b)Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

429. This certification was false and misleading because, as alleged in detail herein, Anderson was aware of Apple's backdating practices and was aware of the accounting ramifications and the effect of backdating on the Company's financial statements and, therefore, (a) he lied when he certified that Apple's 2003 Annual Report contained (i) no untrue statements of material fact and did not omit to state material facts relating to backdating, (ii) financial statements that fairly presented the financial condition, results of operations and cash flows of the Company, and (b) he lied when he certified that he disclosed to the Company's auditors and/or Audit Committee any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

G. CEO AND CFO QUARTERLY CERTIFICATIONS

430. During the Class Period, certain Apple filed false and misleading quarterly certifications with the SEC which were relied upon by Class Members and which caused Apple's stock price to be materially inflated.

431. With respect to the December 28, 2002 Quarterly Report, the March 29, 2003 Quarterly Report, the June 28, 2003 Quarterly Report, the December 27, 2003 Quarterly Report, the March 27, 2004 Quarterly Report, the June 26, 2004 Quarterly Report, the December 25, 2004 Quarterly Report, the March 26, 2005 Quarterly Report, the June 25, 2005 Quarterly Report, the December 31, 2005 Quarterly Report and the April 1, 2006 Quarterly Report, defendant Jobs, Apple's CEO, made the following false and misleading certification:

1. I have reviewed this quarterly report on Form 10-Q of Apple Computer, Inc.;

1 2. Based on my knowledge, this quarterly report does not contain
2 any untrue statement of a material fact or omit to state a material
3 fact necessary to make the statements made, in light of the
4 circumstances under which such statements were made, not
5 misleading with respect to the period covered by this report;

6 3. Based on my knowledge, the financial statements, and other
7 financial information included in this report, fairly present in all
8 material respects the financial condition, results of operations and
9 cash flows of the registrant as of, and for, the periods presented in
10 this report;

11 4. The registrant's other certifying officer(s) and I are responsible
12 for establishing and maintaining disclosure controls and
13 procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-
14 15(e)) for the registrant and have:

15 (a) Designed such disclosure controls and procedures, or
16 caused such disclosure controls and procedures to be
17 designed under our supervision, to ensure that
18 material information relating to the registrant,
19 including its consolidated subsidiaries, is made
20 known to us by others within those entities,
21 particularly during the period in which this report is
22 being prepared;

23 (b) Evaluated the effectiveness of the registrant's
24 disclosure controls and procedures and presented in
25 this report our conclusions about the effectiveness of
26 the disclosure controls and procedures, as of the end
27 of the period covered by this report based on such
28 evaluation; and

(c) Disclosed in this report any change in the registrant's
internal control over financial reporting that occurred
during the registrant's most recent fiscal quarter (the
registrant's fourth fiscal quarter in the case of an
annual report) that has materially affected, or is
reasonably likely to materially affect, the registrant's
internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed,
based on our most recent evaluation of internal control over
financial reporting, to the registrant's auditors and the audit
committee of registrant's board of directors (or persons performing
the equivalent functions):

(a) All significant deficiencies and material weaknesses in
the design or operation of internal control over financial
reporting which are reasonably likely to adversely

1 affect the registrant's ability to record, process,
2 summarize and report financial information; and

3 (b) Any fraud, whether or not material, that involves
4 management or other employees who have a significant
5 role in the registrant's internal control over financial
6 reporting.

7 432. These certifications were false and misleading because, as alleged in detail
8 herein, Jobs was aware of Apple's backdating practices, actually recommended the backdating
9 of options and was aware of the accounting ramifications and the effect of backdating on the
10 Company's financial statements and, therefore, (a) he lied when he certified that knew that
11 Apple's December 28, 2002 Quarterly Report, the March 29, 2003 Quarterly Report, the June
12 28, 2003 Quarterly Report, the December 27, 2003 Quarterly Report, the March 27, 2004
13 Quarterly Report, the June 26, 2004 Quarterly Report, the December 25, 2004 Quarterly
14 Report, the March 26, 2005 Quarterly Report, the June 25, 2005 Quarterly Report, the
15 December 31, 2005 Quarterly Report and the April 1, 2006 Quarterly Report, contained (i) no
16 untrue statements of material fact and did not omitted to state material facts relating to
17 backdating, (ii) quarterly reports that fairly presented the financial condition, results of
18 operations and cash flows of the Company were false and misleading due to backdating, and
19 (b) he lied when he certified that he disclosed to the Company's auditors and/or Audit
20 Committee any fraud, whether or not material, that involves management or other employees
21 who have a significant role in the Company's internal control over financial reporting.

22 433. With respect to the December 28, 2002 Quarterly Report, the March 29, 2003
23 Quarterly Report, the June 28, 2003 Quarterly Report, the December 27, 2003 Quarterly Report
24 and the March 27, 2004 Quarterly Report, defendant Anderson, Apple's former CFO, made the
25 following false and misleading certification:

26 1. I have reviewed this quarterly report on Form 10-Q of Apple
27 Computer, Inc.;

28 2. Based on my knowledge, this quarterly report does not contain
any untrue statement of a material fact or omit to state a material
fact necessary to make the statements made, in light of the

1 circumstances under which such statements were made, not
2 misleading with respect to the period covered by this report;

3 3. Based on my knowledge, the financial statements, and other
4 financial information included in this report, fairly present in all
5 material respects the financial condition, results of operations and
6 cash flows of the registrant as of, and for, the periods presented in
7 this report;

8 4. The registrant's other certifying officer(s) and I are responsible
9 for establishing and maintaining disclosure controls and
10 procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-
11 15(e)) for the registrant and have:

- 12 (a) Designed such disclosure controls and procedures, or
13 caused such disclosure controls and procedures to be
14 designed under our supervision, to ensure that material
15 information relating to the registrant, including its
16 consolidated subsidiaries, is made known to us by others
17 within those entities, particularly during the period in
18 which this report is being prepared;
- 19 (b) Evaluated the effectiveness of the registrant's disclosure
20 controls and procedures and presented in this report our
21 conclusions about the effectiveness of the disclosure
22 controls and procedures, as of the end of the period covered
23 by this report based on such evaluation; and
- 24 (c) Disclosed in this report any change in the registrant's
25 internal control over financial reporting that occurred
26 during the registrant's most recent fiscal quarter (the
27 registrant's fourth fiscal quarter in the case of an annual
28 report) that has materially affected, or is reasonably likely
to materially affect, the registrant's internal control over
financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed,
based on our most recent evaluation of internal control over
financial reporting, to the registrant's auditors and the audit
committee of registrant's board of directors (or persons performing
the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the
design or operation of internal control over financial
reporting which are reasonably likely to adversely affect
the registrant's ability to record, process, summarize and
report financial information; and
- (b) Any fraud, whether or not material, that involves
management or other employees who have a significant

1 role in the registrant's internal control over financial
2 reporting.

3 434. These certifications were false and misleading because, as alleged in detail
4 herein, Anderson was aware of Apple's backdating practices and was aware of the accounting
5 ramifications and the effect of backdating on the Company's quarterly reports and, therefore,
6 (a) he lied when he certified that Apple's December 28, 2002 Quarterly Report, the March 29,
7 2003 Quarterly Report, the June 28, 2003 Quarterly Report, the December 27, 2003 Quarterly
8 Report and the March 27, 2004 Quarterly Report contained (i) no untrue statements of material
9 fact and did not omit to state material facts relating to backdating, (ii) quarterly reports that
10 fairly presented the financial condition, results of operations and cash flows of the Company,
11 and (b) he lied when he certified that he disclosed to the Company's auditors and/or Audit
12 Committee any fraud, whether or not material, that involves management or other employees
13 who have a significant role in the Company's internal control over financial reporting.

14 **H. REGISTRATION STATEMENTS**

15 435. Prior to and during the Class Period, Apple filed certain false and misleading
16 registration statements with the SEC which were relied upon by Class Members and which
17 caused Apple's stock price to be materially inflated.

18 436. Options to acquire shares would be far less valuable to employees if they were
19 unable to sell them on the Nasdaq National Market where Apple's stock trades publicly. Thus,
20 in a series of registration statements filed with the SEC, Apple registered the shares it had
21 reserved for issuance under its various stock option plans to enable employees to publicly sell
22 shares acquired through option exercises. This enabled the employees to realize the unlawful
23 instant paper profit built in to the backdated options the Stock Option Committee,
24 Compensation Committee or the full board of directors had awarded them.

25 437. The registration statements the Company used to register these shares failed to
26 disclose backdating practices and incorporated by reference the Company's false Form 10-K's
27 for the fiscal year corresponding to the year in which the registration statement was filed or the
28

1 fiscal year prior to the year in which the registration statement was filed. As a result, these
2 registration statements are materially false and misleading as well.

3 438. The following false and misleading registration statements were used for the
4 purpose of enabling employees to sell shares in the public market through the exercise of
5 backdated stock options:

6 (a) registration statement on Form S-8 dated March 21, 1997 to
7 register 1 million newly reserved shares of the Company's common stock under
the Company's 1990 Plan, signed by Anderson;

8 (b) registration statement on Form S-8 dated December 22, 1999 to
9 register 8 million newly reserved shares of the Company's common stock under
the Company's 1997 Employee Stock Option Plan, signed by Jobs, Anderson,
10 Campbell, Drexler and York, and to which Heinen's legal opinion letter of the
same date was attached stating "[a]s counsel in connection with this transaction, I
11 have examined the actions taken, and I am familiar with the actions proposed to
be taken....";

12 (c) registration statement on Form S-8 dated December 19, 2000 to
13 register 20 million newly reserved shares of the Company's common stock under
the Company's 1997 Employee Stock Option Plan, signed by Jobs, Anderson,
14 Campbell, Drexler and York, and to which Heinen's legal opinion letter of the
same date was attached stating "[a]s counsel in connection with this transaction, I
15 have examined the actions taken, and I am familiar with the action proposed to be
taken....";

16 (d) registration statement on Form S-8 dated May 18, 2001 to register
17 5 million newly reserved shares of the Company's common stock under the
Company's 1998 Plan, signed by Jobs, Anderson, Campbell, Drexler, Levinson
18 and York, and to which Heinen's legal opinion letter of the same date was
attached stating "[a]s counsel in connection with this transaction, I have examined
19 the actions taken, and I am familiar with the action proposed to be taken....";

20 (e) registration statement on Form S-8 dated September 28, 2001 to
21 register 2 million newly reserved shares of the Company's common stock under
the Company's 1997 Employee Stock Option Plan, signed by Jobs, Anderson,
22 Campbell, Drexler, Ellison, Levinson and York, and to which Heinen's legal
opinion letter dated September 25, 2001 was attached stating "[a]s counsel in
23 connection with this transaction, I have examined the actions taken, and I am
familiar with the action proposed to be taken....";

24 (f) registration statement on Form S-8 dated December 26, 2001 to
25 register 10 million newly reserved shares of the Company's common stock under
the Company's 1997 Employee Stock Option Plan, signed by Jobs, Anderson,
26 Campbell, Drexler, Ellison, Levinson and York, and to which Heinen's legal
opinion letter dated December 20, 2001 was attached stating "[a]s counsel in
27 connection with this transaction, I have examined the actions taken, and I am
familiar with the action proposed to be taken...."; and

28 (g) registration statement on Form S-8 dated December 23, 2002, to
register 5 million newly reserved shares of the Company's common stock under

the Company's 1998 Plan, signed by Jobs, Anderson, Campbell, Drexler, Levinson and York, and to which Heinen's legal opinion letter of the same date was attached stating "[a]s counsel in connection with this transaction, I have examined the actions taken, and I am familiar with the action proposed to be taken...."

VII. ADDITIONAL SCIENTER ALLEGATIONS

A. GENERAL ALLEGATIONS OF SCIENTER OF THE INDIVIDUAL DEFENDANTS

439. The Individual Defendants, by virtue of their receipt of information reflecting the improper and fraudulent behavior described above and/or their failure to review information they had a duty to monitor, their actual issuance of and control over Apple's materially false and misleading statements, and their association with Apple which made them privy to confidential proprietary information concerning Apple, were active, culpable, and primary participants in the fraudulent schemes alleged herein to backdate Apple's stock options, conceal compensation expenses resulting from such backdating and mislead shareholders as to Apple's true financial performance. The Individual Defendants knew or recklessly disregarded the materially false and misleading nature of the information they caused to be disseminated to the investing public.

440. The Individual Defendants also knew or recklessly disregarded that the misleading statements and omissions contained in Apple's statements would adversely affect the integrity of the market for Apple's securities and would cause the price of Apple's common stock to be artificially inflated. The Individual Defendants acted knowingly or in such reckless manner as to constitute a fraud and deceit upon Lead Plaintiff and other members of the Class.

441. In addition to the foregoing and other acts alleged herein, the following facts provide compelling evidence that the Individual Defendants acted with actual knowledge, or, at the very least with recklessness.

B. KNOWLEDGE OR RECKLESS DISREGARD BY EACH OF THE INDIVIDUAL DEFENDANTS

442. Options backdating, by definition, requires the affirmative misconduct of corporate managers to misrepresent the facts surrounding the actual grant date of an option award. The Individual Defendants, Defendants Jobs, Anderson and Heinen, each acted with

1 actual knowledge of, or reckless disregard with respect to, Apple's backdating of stock options
 2 and knowingly communicating false statements to the investing public and Apple's
 3 shareholders regarding their conduct. Moreover, these Individual Defendants were keenly
 4 aware that the consequences of their actions would result in Apple misrepresenting materially
 5 its financial performance during critical financial reporting periods.

6 **1. Steve Jobs**

7 443. Jobs was the single largest beneficiary of backdated options during the Class
 8 Period. Of the \$105 million in income that Apple has been forced to restate, approximately
 9 \$20.3 million of the additional expenses relates to a single backdated option grant to Jobs
 10 falsely dated October 19, 2001. This single backdated option—of 7.5 million shares—caused
 11 Apple to materially overstate its operating income by 47.1% and its net income by 9.2% for the
 12 2002 fiscal year.

13 444. With respect to the October 19, 2001 grant, Jobs was expressly informed, as set
 14 forth *supra*, that this option grant would be backdated. Indeed, it was only on December 18,
 15 2001, that Jobs came to an agreement with the Compensation Committee of the Board of
 16 Directors on the vesting schedule for his 7.5 million option grant. The following day, on
 17 December 19, 2001, the chair of the Compensation Committee, Defendant York emailed Jobs
 18 and other members of Apple's board of director and informed the Board that he and Heinen had
 19 selected October 19, 2001 as the date on which to date the grant because that was the date on
 20 which the Board had held a conference call on a completely unrelated matter. Jobs knew that
 21 the Board had not approved the options on October 19 nor that the conference call held on that
 22 day discuss his options grant. .

23 445. In Apple's proxy statement dated March 21, 2002, approved by Jobs, Apple's
 24 shareholders were told that:

25 in October 2001 the Compensation Committee recommended and
 26 the Board approved granting Mr. Jobs options to purchase
 27 7,500,000 shares...in order to provide him with an incentive to
 28 continue to serve as the Company's CEO and maximize
 shareholder value. The options were granted at an exercise price
 of \$18.30, which is equal to the fair market value on the date of
 grant.

1 (Emphasis added.)

2 446. This statement was false – the Board did no such thing and Jobs clearly knew
3 that this statement was false. As acknowledged in the 2006 Annual Report which Jobs signed:
4 “the approval for the grant was improperly recorded as occurring at a special Board meeting on
5 October 19, 2001. ***Such a special Board meeting did not occur.***” (Emphasis added)

6 447. The meeting not only never took place, but Apple took affirmative steps to hide
7 the truth. Defendant Heinen directed a former Apple in-house lawyer to falsify documents and
8 cover up the hoax. As reported in a January 12, 2007 *Journal* article, when the bogus paper
9 trail for Jobs’ 2001 backdated grant was created, the Apple lawyer was acting at the direction
10 of Heinen. The *Journal* article states:

11 People familiar with the matter say the false documentation was
12 created by an Apple attorney named Wendy Howell, whom the
13 company quietly dismissed last month. Ms. Howell contends that
14 Apple’s general counsel at the time, Nancy Heinen, instructed her
15 to create the false documentation, these people say. Thomas
16 Carlucci, Ms. Howell’s attorney, said that while at Apple Ms.
17 Howell acted as instructed by Apple management....

18 448. This blatantly illegal conduct is consistent with Jobs’s actions in connection
19 with his earlier grant of options to his executive team and his actions as a director at Pixar
20 Animation Studios (“Pixar”), a company he co-founded in 1986. The fact of Jobs’s knowledge
21 is evidenced by Jobs involvement with the January 17, 2001 option grant to his Executive
22 Team. As set forth more fully *supra*, in late 2000, Apple’s Board had begun considering a
23 large options grant to Apple’s senior executives. On January 30, 2001, Heinan and Jobs
24 conferred to select the lowest stock price for Apple’s stock price in January 2001, picking
25 January 16, 2001. Heinen then conferred with Defendant Anderson who approved that grant
26 date and Heinen, once again, confirmed with Jobs to give approval to the backdated grant.
27 Following this discussion with Jobs, Heinen prepared fraudulent paperwork to submit to the
28 Board of Directors to authorize the grant

29 449. Similarly, as stated in a February 9, 2007 article in the *Journal*, while Jobs was
30 at Pixar in or about March 2001, “Jobs helped negotiate an employment contract with a top
31 film director that included a large stock-options grant with an especially well-timed date,

1 according to a person familiar with the matter.” The one million share options grant, which
2 was part of an employment contract with the director that Jobs signed in his then-capacity as
3 Pixar’s Chairman and CEO, “carried the lowest share price of the previous year – on a date
4 more than three months before the employment contract was actually signed.” The contract
5 was signed by Jobs on March 21, 2001, but the options carried an exercise price from
6 December 6th of the prior year. Pixar’s shares had risen approximately 24% during the period
7 from December 6th to March 20th. (Pixar has since been acquired by Walt Disney Co.) Thus,
8 according to the *Journal* article, Jobs had participated in awarding the director an instant paper
9 profit of \$6.4 million.

10 450. The actual grant date was December 18, 2001 which means the assigned
11 exercise price should have been \$21.01 -- Apple’s December 18 closing price representing the
12 fair market value of Apple’s shares on the true date of grant.

13 451. In settling an SEC enforcement action concerning Anderson’s participation in
14 Apple’s backdating scheme (discussed *supra* and *infra*), Anderson, through his attorney, stated
15 that in connection with a large, January 2001 backdated stock option award to a team of high-
16 ranking Apple executives (which is discussed further below) “he told Mr. Jobs the company
17 might have to take a charge against earnings if it backdated stock-options grants.” More
18 specifically, Anderson “said he warned Mr. Jobs in late January 2001 -- while Apple was in the
19 process of backdating a grant -- that the company might have to take an accounting charge if
20 Apple didn’t price stock options to its executive team based on the date the board approved the
21 grant.” Nick Wingfield and Steve Stecklow, *Ex-Finance Chief Says Jobs Misled Him on*
22 *Options*, THE WALL STREET JOURNAL, April 25, 2007, at A-1 (“Wingfield and Stecklow”).

23 452. Even if he had not been expressly informed of the consequences by Anderson,
24 Jobs (and his fellow directors) had an obligation to understand the proper accounting rules and,
25 more importantly, year after year, falsely represented to shareholders in SEC filings that the
26 Company was following them. Jobs and his fellow directors knew, as any reasonable person
27 would, that backdating options awards to executives and not telling shareholders the truth about
28 it was cheating. To be clear, Jobs *knew* that the dates disclosed to shareholders as the dates on

1 which options supposedly were granted by the Company to him and to other employees *were*
 2 *not true*, and that the Company had been engaging in the widespread and systemic backdating
 3 of option grants. Regardless of whether Jobs appreciated the accounting implications of these
 4 misstatements, he knew and appreciated that these were false statements nevertheless.

5 453. It was, or should have been, obvious to the defendants that shareholders would
 6 consider the \$104,087,000 in “instant paper profits” Jobs received from backdating important
 7 in deciding how to vote on executive compensation matters. The fact that Jobs received
 8 restricted stock in exchange for these ill-gotten gains does not change the significance to
 9 shareholders because in exchange for the “instant paper profits,” Jobs received an inflated
 10 amount of restricted stock that he would not have received had the cancelled options not been
 11 backdated. An excerpt from a January 11, 2007 *Washington Post* article explains:

12 [The restricted stock Jobs received in 2001] was worth \$75 million
 13 at the time, nearly the same as the value of the options he
 14 relinquished, using a technique for calculating the value of
 investments popular with financial analysts and used by Apple.

15 Steve Dowling, Apple’s director of corporate communications,
 16 said the 2003 transaction did not directly benefit Jobs because he
 could not sell the restricted shares until he had remained at Apple
 for another three years.

17 **Some investor advocates call that explanation disingenuous.**
 18 **“You are torturing the English language to say he did not**
 19 **benefit from the options,” said Patrick McGurn, executive vice**
 20 **president of Institutional Shareholder Services. He certainly**
 21 **benefited from the grant because the grant was converted on a**
 value-to-value basis. McGurn and other analysts also said the
 amount of stock Jobs received appeared to be inflated because the
 value of his options was exaggerated, at least in the case of one
 grant, by improper backdating.

22 (Emphasis added.)

23 454. The January 11, 2007 *Washington Post* article further concluded that the
 24 backdated 2001 stock option grant alone resulted in Jobs receiving 630,000 more restricted
 25 shares in exchange for backdated options than he would have received had the options not been
 26 backdated. The article states:

27 In the case of the 2001 grant, for instance, the difference between
 28 the false October [grant] date and the December [grant] date,
 which Apple now says was the proper one, was worth about \$5

1 million to Jobs when he traded the options in. Had the lower value
2 been used in calculating the amount of stock he would get in
3 return, he would have received 630,000 fewer shares. By the time
he could sell them three years later, these shares would have been
worth more than \$40 million....

4 At more recent prices, these extra 630,000 shares have a value in excess of \$100 million.

5 455. As of March 19, 2006, Jobs reportedly held only about half of these tainted
6 restricted shares. On March 19, 2006 – just one day after publication of the *Journal* article
7 disclosing the backdating issue -- Jobs sold 4,573,553 of his restricted shares at \$64.66 for
8 \$295.7 million. The remaining 5,426,451 shares are currently worth in excess of \$900 million.

9 **2. Heinen**

10 456. As alleged *supra*, Heinen played a central role in arranging at least two of the
11 most significant option grants that contributed to the overstatement of Apple's income during
12 the Class Period and the understatement of its expenses. For both the January 17, 2001
13 Executive Team Grant and the October 17, 2001 Grant, Heinen reviewed the Company's stock
14 price, recommended the lowest price to Jobs and to the Board's compensation committee, and
15 then falsified the Company's books and records, to create the appearance that these options
16 were approved on dates when they were not. As legal counsel, Heinen was responsible for
17 signing and approving the Company's proxy disclosures and approved, despite her knowledge
18 of their falsity, all of the statements concerning Apple's option grants in Apple's proxy
19 statements, as alleged *supra*.

20 457. As general counsel for Apple, Heinen was aware of the accounting implications
21 for backdating options and issuing them while they were in the money.

22 458. Heinen personally profited from the receipt of backdated options. With respect
23 to the January 18, 2001 Executive Team option grant, which the Defendants had backdated so
24 that they were \$3.94 in the money when issued, Heinen received 400,000 options and she
25 exercised and sold all of them during the Class Period.

26 459. On April 24, 2007, the SEC charged Heinen with fraud relating to stock options
27 backdating at Apple. According to SEC Litigation Release No. 20086 dated April 24, 2007:
28 (a) "Heinen ... personally received millions of dollars in unreported compensation as a result of

1 the backdating”; and (b) the SEC’s complaint allege[d] that Heinen ... caused Apple to
2 backdate to large option grants to senior executives of Apple – a February 2001 grant of 4.8
3 million options to Apple’s Executive Team and a December 2001 grant of 7.5 million options
4 to Apple Chief Executive Officer Steve Jobs – and altered company records to conceal the
5 fraud.” (The foregoing SEC Litigation Release and the related SEC complaint are incorporated
6 herein by reference.)

7 460. To avoid the SEC’s fraud charges, Heinen settled with the SEC. Heinen was
8 permanently enjoined from committing further fraud in violation of the federal securities laws
9 and was required to disgorge more than \$1.5 million in ill-gotten gains from illicit backdating,
10 paid a \$200,000 penalty, was barred from serving as an officer or director of a public company
11 for five years and was suspended from appearing or practicing as an attorney before the SEC
12 for three years.

13 3. Anderson

14 461. As set forth in detail supra, with respect to the January 17, 2001 Option Grant,
15 Anderson was directly informed by Heinen that Jobs and her had backdated these option grants.
16 Anderson received copies of the fraudulent paperwork that Heinen prepared and sent to the
17 Board on February 1, 2001, for approval of the options dated January 17. As Chief Financial
18 Officer, Anderson understood that Apple would have to appropriately account for the in-the-
19 money grant being awarded to Apple’s senior executives. As a former certified public
20 accountant, he was no doubt familiar with ABP 25, the accounting literature that dictates how
21 to account for the granting of an in the money option.

22 462. Despite his knowledge of the relevant accounting principles, and despite the
23 backdated options accruing an \$18.3 million expense, Anderson allowed Apple to ignore this
24 expense and signed Apple’s public filings which falsely reported Apple’s earnings.

25 463. Pursuant to the backdated Executive Team grant, Anderson received in-the-
26 money options worth an additional \$3.94 per share. Anderson exercised and sold 750,000 of
27 the 1,000,000 shares granted to him before he retired from Apple in 2004.

28

1 464. Indeed, on April 24, 2007, the SEC charged Anderson with fraud relating to
2 stock options backdating at Apple. According to SEC Litigation Release No. 20086 dated
3 April 24, 2007: (a) “Anderson personally received millions of dollars in unreported
4 compensation as a result of the backdating”; and (b) the SEC’s complaint charged that Anderson
5 “failed to disclose key information [about backdating] to Apple’s auditors and neglected to
6 ensure that the company’s financial statements were accurate.” (The foregoing SEC Litigation
7 Release and the related SEC complaint are incorporated herein by reference.)

8 465. To avoid the fraud charges, Anderson settled with the SEC. Anderson was
9 permanently enjoined from committing further fraud in violation of the federal securities laws
10 and was required to disgorge almost \$3 million in ill-gotten gains from illicit backdating and
11 paid a \$150,000 penalty.

12 **C. 20(a) DEFENDANTS’ CULPABILITY**

13 466. The 20(a) Defendants either were expressly told that options they approved were
14 backdated or were extremely reckless in not knowing. The 20(a) Defendants were ultimately
15 entrusted, by virtue of their positions on the Board’s compensation committee, to review and
16 approve the terms and conditions of all option grants that were the subject of the Restatement.
17 In at least two circumstances, accounting for approximately \$40 million of Apple’s restatement
18 of expenses, the 20(a) Defendants, as set forth *supra*, were explicitly told that options were
19 being backdated to earlier dates and signed off on fabricated meeting minutes, thereby
20 falsifying company records. These directors then signed false public filings that misled
21 investors regarding the Company’s option grants.

22 **VIII. LOSS CAUSATION ALLEGATIONS**

23 467. Throughout the Class Period, the price of Apple’s securities was inflated as the
24 result of the Defendants’ false and misleading statements and omissions regarding Apple’s
25 compensation policies and financial results. But for the Defendants’ misrepresentations, Lead
26 Plaintiff and the other members of the Class would not have purchased Apple’s securities at the
27 artificially inflated prices at which they were offered.
28

1 468. Shortly after the release of the March 18, 2006 *Journal* article, which for the
2 first time disclosed backdating practices at certain companies (but not at Apple), Apple's stock
3 price closed at \$63.99 on March 20, 2006. In April 2006, Apple held its annual meeting at
4 which certain Apple directors who had substantial involvement with backdating stood for
5 reelection. But Apple never said a word about its decade long practice of backdating options.
6 Entirely unaware that the practices the *Journal* article revealed had in fact persisted at Apple
7 for many years, in late April and early May, 2006, ignorant Apple investors caused Apple's
8 stock to trade in the low \$70-range, closing at \$71.59 on May 8, 2006. Continuing uncertainty
9 over Apple's earnings and the weakening economy caused Apple's share price to trade lower in
10 the Summer of 2006. By late June 2006, Apple's shares were trading in the high \$50's and
11 closed at \$56.02 on June 28, 2006.

12 469. On June 29, 2006, the last day of the Class Period, Apple announced that an
13 internal investigation uncovered "irregularities" in its stock option practices. Over the next two
14 weeks, Apple's stock dropped precipitously from a close of \$58.97 on June 29, 2006 to \$50.67
15 on July 14, 2006 – a drop of more than 14%. *With 850,508,144 outstanding shares at the time,*
16 *this drop represented a decline in the market capitalization of Apple of well over \$7 billion.*

17 470. This fall in the price of Apple securities was directly attributable to the
18 Company's disclosure of "irregularities" in its accounting for stock options. As a result of this
19 disclosure investors suddenly learned that Apple's most senior managers were willing to lie to
20 investors and the general public in order to enhance their own compensation. Thus, investors
21 suddenly became aware that the managers to whom they had entrusted their funds lacked
22 integrity and could not be trusted. They further learned that Apple's financial results were
23 inaccurate and overstated.

24 471. That the fall in the price of Apple's securities is directly attributable to these
25 revelations is demonstrated by the fact that the performance of Apple's stock price in the period
26 immediately following the June 29, 2006 disclosure significantly lagged behind companies in
27 the S&P 500 Index and S&P Info Tech Index. More specifically, from June 29, 2006 to July
28 14, 2006, the shares of companies in the S&P 500 Index and S&P Info Tech Index declined

1 2.88% and 7.25%, respectively, whereas Apple's share price declined a far greater 14.07%.
2 Accordingly, this \$7 billion fall in Apple's stock price properly can be characterized as a
3 "correction" caused by the disclosure of the Company's lack of management integrity and
4 fraudulent compensation practices, which were revealed through disclosures relating to its
5 improper accounting for stock options.

6 472. It is, of course, true that since Apple's stock price fell in the period immediately
7 after the June 29, 2006 disclosure, Apple's stock price has performed well. Indeed, on July 19,
8 2006, Apple reported its second highest quarterly sales and earnings in its history and the
9 Company's stock shot up from a close of \$54.10 on July 19, 2006 to close at \$60.50 on July 20,
10 2006. And since that announcement, Apple has continued to outperform comparable
11 companies through strong earnings through sales of its ubiquitous "iPod" and the release of its
12 much-anticipated "iPhone." The performance of the Company's stock price subsequent to the
13 disclosure of the improper backdating, however, does nothing to eliminate the fact that, as
14 demonstrated by the \$7 billion collapse of Apple stock following the June 29, 2006, disclosure,
15 Apple's stock was, in fact, inflated throughout the Class Period. Indeed, had Apple not lied
16 about its accounting for stock options, the price of Apple securities would be trading 14%
17 higher even now.

18 **IX. CLASS ACTION ALLEGATIONS**

19 473. Lead Plaintiff brings this action pursuant to Rule 23 of the Federal Rules of
20 Civil Procedure on behalf of itself and all others similarly situated. Excluded from the Class
21 are defendants and any person or entity related to or affiliated with any of the defendants, as
22 well as any person or entity who received stock options from Apple, whether or not vested or
23 exercised, that were backdated or any consideration in exchange for backdated stock options.

24 474. The counts asserted herein are properly maintainable as class action counts.

25 475. The Class is so numerous that joinder of all members is impracticable. As of
26 March 20, 2007, there were approximately 864,487,955 shares outstanding of Apple's common
27 stock, held by individuals and entities too numerous to bring separate actions. It is reasonable
28

1 to assume that holders of the common stock are geographically dispersed throughout the United
2 States.

3 476. There are questions of law and fact which are common to the Class and which
4 predominate over questions affecting any individual class member. The common questions
5 include, *inter alia*, the following:

6 (a) whether certain defendants backdated stock options, knew or should have
7 known options were being backdated and/or received backdated stock options;

8 (b) whether Apple's financial statements report artificially inflated net income as
9 the result of failing to recognize compensation expenses associated with improper
backdating;

10 (c) whether certain defendants issued false and misleading statements with the
requisite scienter required under Section 10(b);

11 (d) whether Apple's proxy statements, annual reports and registration statements
12 were materially false and misleading; and

13 (e) whether and to what extent Plaintiffs suffered financial loss as a result of
defendants' misstatements and omissions.

14 477. Lead Plaintiff is committed to prosecuting this action and has retained
15 competent counsel experienced in litigation of this nature. Lead Plaintiff's claims are typical of
16 the claims of other members of each of the Class. Accordingly, Lead Plaintiff is an adequate
17 representative of the Class and will fairly and adequately protect the interests of the Class.

18 478. Lead Plaintiff anticipates that there will be no difficulty in the management of
19 this action as a class action.

20 479. Defendants have acted on grounds generally applicable to the Class with respect
21 to the matters complained of herein, thereby making appropriate the relief sought herein with
22 respect to the Class.

23 480. The prosecution of separate actions would create the risk of:

24 (a) inconsistent or varying adjudications which would establish incompatible
25 standards for conduct for the defendants; and/or

26 (b) adjudications which would as a practical matter be dispositive of the interests of
other members of the Class.

X. INAPPLICABILITY OF STATUTORY SAFE HARBOR

481. As alleged herein, the Defendants acted with scienter in that they knew at the time they issued them that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading or omitted material facts; knew that such statements or documents would be issued or disseminated to the investing public; knew that persons were likely to reasonably rely on those misrepresentations and omissions; and knowingly and substantially participated or were involved in the issuance or dissemination of such statements or documents as primary violations of the federal securities law. As set forth elsewhere herein in detail, the Defendants, by virtue of their receipt of information reflecting the true facts regarding Apple, their control over, and/or receipt of Apple's allegedly materially misleading misstatements and/or their association with the Company which made them privy to confidential proprietary information concerning Apple which was used to inflate financial results and which the Individual Defendants caused or were informed of, participated in and knew of the fraudulent scheme alleged herein. With respect to non-forward-looking statements and/or omissions, the Defendants knew and/or with deliberate recklessness disregarded the falsity and misleading nature of the information, which they caused to be disseminated to the investing public.

482. The false and misleading statements and omissions do not constitute forward-looking statements protected by any statutory safe harbor. The statements alleged to be false and misleading herein all relate to facts and conditions existing at the time the statements were made. No statutory safe harbor applies to any of Apple's material false or misleading statements.

483. Alternatively, to the extent that any statutory safe harbor is intended to apply to any forward-looking statement pled herein, the Defendants are liable for the false forward-looking statement pled herein because, at the time each forward-looking statement was made, the speaker knew or had actual knowledge that the forward-looking statement was materially false or misleading, and the forward-looking statement was authorized and/or approved by a director and/or executive officer of Apple who knew that the forward-looking statement was

1 false or misleading. None of the historic or present tense statements made by the Defendants
 2 was an assumption underlying or relating to any plan, projection or statement of future
 3 economic performance, as they were not stated to be such an assumption underlying or relating
 4 to any projection or statement of future economic performance when made nor were any of the
 5 projections or forecasts made by the defendants expressly related to or stated to be dependent
 6 on those historic or present tense statements when made.

7 **XI. APPLICABILITY OF PRESUMPTION OF RELIANCE:FRAUD-ON-THE**
 8 **MARKET DOCTRINE**

9 484. The market for Apple's stock was an open, well-developed and efficient market
 10 at all relevant times for the following reasons, among others:

11 a. Apple common stock met the requirements for listing, and was listed
 12 and actively traded on the NASDAQ, a highly efficient and automated market;

13 b. As a regulated issuer, Apple was required to file and did file periodic
 14 reports with the SEC;

15 c. Apple regularly communicated with public investors via established
 16 market communication mechanisms, including through regular disseminations of press
 17 releases on the national and international circuits of major newswire services and
 18 through other wide-ranging public disclosures, such as communications with the
 19 financial press and other similar reporting services;

20 d. Apple was followed by several securities analysts employed by major
 21 brokerage firms who wrote reports which were distributed to the sales force and certain
 22 customers of their respective brokerage firms, which reports were each publicly
 23 available and entered the public marketplace; and

24 e. The trading volume of Apple stock was substantial during the Class
 25 Period. As a result, the market for Apple common stock promptly digested current
 26 information regarding Apple from all publicly available sources and reflected such
 27 information in Apple's stock price. Under these circumstances, all persons in the Class
 28 who purchased Apple common stock during the Class Period based on the Defendants'

1 false and misleading statements suffered similar injury through their purchase of shares
 2 of such stock at artificially inflated prices and a presumption of reliance applies.

3 **XII. CLAIMS FOR RELIEF**

4 **COUNT I**

5 **CLASS CLAIM FOR VIOLATION OF SECTION 10(b)** 6 **AGAINST DEFENDANTS APPLE, JOBS, HEINEN AND ANDERSON** 7 **(THE SECTION 10(b) DEFENDANTS)**

8 485. Plaintiffs hereby reallege and incorporate the allegations in the preceding
 9 paragraphs as if fully set forth herein.

10 486. This claim is asserted by Lead Plaintiff on behalf of itself and the Class against
 11 the Section 10(b) Defendants and is based upon Section 10(b) of the Exchange Act, 15 U.S.C.
 12 78j(b), and Rule 10b-5(b), 17 C.F.R. 240.10b-5, promulgated thereunder.

13 487. During the Class Period, the Section 10(b) Defendants, singularly and in
 14 concert, directly carried out a common plan, scheme and unlawful course of conduct, pursuant
 15 to which they intended to and, throughout the Class Period, did: (a) deceive the investing
 16 public, including Lead Plaintiff and other members of the Class, as alleged herein; (b)
 17 artificially inflate and maintain the market price of Apple's stock; and (c) cause Lead Plaintiff
 18 and other members of Class to purchase or otherwise acquire Apple's stock at artificially-
 19 inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, the Section
 20 10(b) Defendants, collectively and each of them, took the actions set forth herein.

21 488. The Section 10(b) Defendants knowingly or with deliberate recklessness made
 22 statements of material fact which were false and misleading primarily because of their omission
 23 of material facts necessary to make the statements not misleading by use of means or
 24 instrumentalities of interstate commerce, which operated as a fraud and deceit upon the
 25 purchasers and acquirers of the Company's stock in an effort to maintain artificially high
 26 market prices for Apple's stock in violation of Section 10(b) of the Exchange Act and Rule
 27 10b-5.
 28

1 489. The Section 10(b) Defendants engaged in the fraudulent activity described
2 above knowingly and intentionally or with such extreme or deliberate recklessness as to
3 constitute willful deceit and fraud upon Lead Plaintiff and the Class. The Section 10(b)
4 Defendants knowingly or with extreme or deliberate recklessness caused their reports and
5 statements to contain misstatements and omissions of material fact as alleged herein, which
6 caused Apple's stock price to be inflated at the time of Plaintiffs' purchases.

7 490. As a result of the Section 10(b) Defendants' fraudulent activity, the market price
8 of Apple's stock was artificially inflated during the Class Period, and remained inflated until
9 the market began to no longer believe the Section 10(b) Defendants' fraudulent statements.
10 The Section 10(b) Defendants' misrepresentations induced a disparity between the transaction
11 price and the true investment quality and value of Apple's stock at the time Plaintiffs purchased
12 or acquired the stock.

13 491. The market price of Apple's stock declined materially when the Section 10(b)
14 Defendants could not prop up Apple's stock price any more through their fraud.

15 492. In ignorance of the true financial condition of Apple, Lead Plaintiff and other
16 members of the Class, relying to their detriment on the integrity of the market and/or on the
17 statements and reports of Apple containing the misleading information, purchased or otherwise
18 acquired Apple stock at artificially inflated prices during the Class Period.

19 493. Had Lead Plaintiff and the other members of the Section 10(b) Class known the
20 truth, they would not have purchased Apple's stock or would not have purchased the stock at
21 the inflated prices that were paid.

22 494. Plaintiffs' losses were proximately caused by the Section 10(b) Defendants'
23 material misrepresentations and omissions concerning Apple's financial condition, including
24 regarding reported revenue, net income and retained earnings.

25 495. Lead Plaintiff and the other members of the Class purchased Apple's stock in
26 reliance on the integrity of the market price of the stock and/or the Section 10(b) Defendants'
27 fraudulent and misleading statements and regulatory filings, and the Section 10(b) Defendants'
28 manipulated the price of Apple's stock through their misconduct as described above.

496. Further, the Section 10(b) Defendants' misconduct proximately caused the losses of Lead Plaintiff and other members of the Class. Plaintiffs' losses were a direct and foreseeable consequence of the Section 10(b) Defendants' failure to disclose and concealment of, *inter alia*, Apple's stock option backdating practices and the effects thereof on the financial condition of the Company. As a direct and proximate cause of the Section 10(b) Defendants' wrongful conduct, Lead Plaintiff and other members of the Class suffered substantial damages in connection with their respective purchases and sales of Apple's stock during the Class Period.

COUNT II
CLASS CLAIM FOR VIOLATION OF SECTION 20(a)
AGAINST DEFENDANTS JOBS, ANDERSON, HEINEN, CAMPBELL, LEVINSON,
DREXLER, AND YORK WITH RESPECT TO THE SECTION 10(b) SECURITIES
FRAUD CLAIM

497. Plaintiffs hereby reallege and incorporate the allegations in the preceding paragraphs as if fully set forth herein.

498. This claim is asserted by Lead Plaintiff on behalf of itself and the Class against defendants Job, Anderson, Heinen, Campbell, Levinson, Drexler and York (the "Section 20(a) Securities Fraud Defendants") and is based upon Section 20(a) of the Exchange Act, 15 U.S.C. 78t(a).

499. The Section 20(a) Securities Fraud Defendants acted as controlling persons of Apple within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their executive positions, Board membership and/or stock ownership, as alleged above, the Section 20(a) Securities Fraud Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various materially false and misleading statements alleged herein. The Section 20(a) Securities Fraud Defendants each had material contributions to the preparation and dissemination of Apple's press releases and SEC filings, and/or signed the SEC filings, and each and all of the Section 20(a) Securities Fraud Defendants were provided with or had unlimited access to copies of the Company's internal reports, press releases, public filings

1 and other statements that they knew were materially false and misleading, or with extreme or
 2 deliberate recklessness disregarded their falsity, prior to and/or shortly after these statements
 3 were issued and had the ability to prevent the issuance of the statements or cause the statements
 4 to be corrected.

5 500. In particular, the Section 20(a) Securities Fraud Defendants had direct
 6 involvement with respect to backdating activities and financial reporting respecting stock
 7 option related matters, and therefore, are presumed to have had the power to control or
 8 influence the particular transactions giving rise to the securities violations as alleged herein,
 9 and exercised the same.

10 501. As set forth above, Apple committed a primary violation of Section 10(b) and
 11 Rule 10b-5 of the Exchange Act by the acts and omissions alleged in this Complaint. By virtue
 12 of their positions as controlling persons of Apple, the Section 20(a) Securities Fraud
 13 Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate
 14 result of the Section 20(a) Securities Fraud Defendants' wrongful conduct, Plaintiff and the
 15 other members of the Class suffered damages in connection with their purchase or acquisition
 16 of Apple's stock.

17 **XIII. PRAYER FOR RELIEF**

18 **WHEREFORE**, Plaintiffs pray that the Court enter judgment and relief in their favor
 19 against defendants on the counts contained herein as follows:

- 20 (a) declaring that the Section 10(b) Defendants violated Section 10(b) by the
 21 conduct alleged herein;
- 22 (b) declaring that the Section 20(a) Securities Fraud Defendants violated Section
 20(a) by the conduct alleged herein;
- 23 (c) certifying the Class;
- 24 (d) awarding compensatory damages together with pre- and post-judgment interest;
- 25 (e) awarding Plaintiffs the costs and expenses incurred in this action, including, but
 26 not limited to, reasonable experts' and attorneys' fees; and
- 27 (f) granting such other and further relief as may be just and proper.

XIV. DEMAND FOR JURY TRIAL

Plaintiffs demand a trial by jury on all claims so triable.

Dated: March 22, 2010

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